

11-10-1982

# Interim Hearing on SR 52: State Telephone Communications Equipment and Services

Senate Committee on Governmental Organization

Follow this and additional works at: [http://digitalcommons.law.ggu.edu/caldocs\\_senate](http://digitalcommons.law.ggu.edu/caldocs_senate)



Part of the [Legislation Commons](#)

---

## Recommended Citation

Senate Committee on Governmental Organization, "Interim Hearing on SR 52: State Telephone Communications Equipment and Services" (1982). *California Senate*. Paper 80.

[http://digitalcommons.law.ggu.edu/caldocs\\_senate/80](http://digitalcommons.law.ggu.edu/caldocs_senate/80)

This Hearing is brought to you for free and open access by the California Documents at GGU Law Digital Commons. It has been accepted for inclusion in California Senate by an authorized administrator of GGU Law Digital Commons. For more information, please contact [jfischer@ggu.edu](mailto:jfischer@ggu.edu).

SENATE COMMITTEE  
ON  
GOVERNMENTAL ORGANIZATION  
TRANSCRIPT OF PROCEEDINGS

INTERIM HEARING  
ON  
SR 52  
STATE TELEPHONE COMMUNICATIONS  
EQUIPMENT AND SERVICES

STATE CAPITOL  
SACRAMENTO, CALIFORNIA

November 10, 1982



COMMITTEE MEMBERS:

Ralph C. Dills, Chairman  
Alfred E. Alquist  
Robert G. Beverly  
Paul B. Carpenter  
Jim Ellis

William Campbell, Vice Chairman  
John Francis Foran  
Marz Garcia  
Bill Greene  
Barry Keene  
John Seymour

STAFF:

Wendy W. Miller, Principal Consultant  
Mary E. Frost, Associate Consultant  
Arthur Terzakis, Research Aide  
Lillian Williams, Committee Secretary

KFC  
22  
L500  
G6  
1982  
no. 2

KFC  
22  
LS00  
G6  
1982  
ms. 2

# LAW LIBRARY

## GOLDEN GATE UNIVERSITY

SENATE COMMITTEE  
ON  
GOVERNMENTAL ORGANIZATION  
TRANSCRIPT OF PROCEEDINGS

INTERIM HEARING  
ON  
SR 52  
STATE TELEPHONE COMMUNICATIONS  
EQUIPMENT AND SERVICES

STATE CAPITOL  
SACRAMENTO, CALIFORNIA

November 10, 1982



COMMITTEE MEMBERS:

Ralph C. Dills, Chairman  
Alfred E. Alquist  
Robert G. Beverly  
Paul B. Carpenter  
Jim Ellis

William Campbell, Vice Chairman  
John Francis Foran  
Marz Garcia  
Bill Greene  
Barry Keene  
John Seymour

---

STAFF:

Lindsay W. Miller, Principal Consultant  
Terry E. Frost, Associate Consultant  
Arthur Terzakis, Research Aide  
Billie Williams, Committee Secretary

83-2-58  
MEMBERS  
RALPH C. DILLS  
CHAIRMAN  
WILLIAM CAMPBELL  
VICE CHAIRMAN  
ALFRED ALQUEST  
FREDERICK C. BEVERLY  
PAUL CARPENTER  
JIM ELLIS  
JOHN FRANCIS FORAN  
MAYNARD GARCIA  
BILLY GREENE  
HARRY KEENE  
JOHN SLYMOOR

# California Legislature

## SENATE COMMITTEE ON GOVERNMENTAL ORGANIZATION

ROOM 5048, STATE CAPITOL  
SACRAMENTO, CALIFORNIA 95814  
TELEPHONE 445-1193

RALPH C. DILLS  
CHAIRMAN

LINDSAY W. MILLER  
PRINCIPAL CONSULTANT  
TERRY E. FROST  
ASSOCIATE CONSULTANT  
ARTHUR TERZAKIS  
TREASURER  
BILLY J. WILLIAMS  
COMMITTEE SECRETARY

January 24, 1983

The Honorable David Roberti  
Chairman, Senate Rules Committee  
State Capitol, Room 205  
Sacramento, California 95814

Dear Senator Roberti:

The Senate Committee on Governmental Organization held an interim hearing in the State Capitol on November 10, 1982, to take testimony on Senate Resolution No.52. This resolution requested a study of the effect upon state government of the deregulation of the Bell Telephone System.

The hearing resulted in considerable testimony from representatives of several state agencies, the major telephone companies, and providers from the private sector. A number of questions were raised relating to the cost and quality of services provided by the Department of General Services to other state agencies. These questions have been referred to the Auditor General for study and report.

The summary of testimony included with this transcript highlights the major statements offered at the hearing. I am forwarding a copy of the transcript to you with this letter.

Sincerely,

  
RALPH C. DILLS

RCD:bjw

## TABLE OF CONTENTS

	<u>Page</u>
Summary of Testimony	i
Opening Statement by Chairman Ralph C. Dills	1
Opening Statement by Senator Bill Greene	2
REED L. ROYALTY, Legislative Representative, Pacific Telephone and Telegraph Company	5, 22
DON CLARK, Marketing Manager, Pacific Telephone and Telegraph Company	7
JULIAN CAMACHO, Deputy Director, Department of General Services	25, 33, 41, 44
MASON RIEGEL, Chief - Communications Division, Department of General Services	28, 32, 34, 42
JAMES FRALICK, Supervisor-Telephone & Data Services, Department of General Services	29, 39
TED BUTTNER, President, Compath Corporation	44
TOM GARCIA, Legislative Representative, General Telephone Company	62
GENE BORGHI, Vice President-Marketing, General Telephone Company	63
J.B. Holmes, Vice President-Business Communications Systems Division, CP National Company	68
LARRY ROBERTS, Marketing Manager, Rolm California	72, 77
WALTER LOEWENSTERN, Executive Vice President, Rolm California	72, 78
HENRY L. CRUTCHER, Former State Telecommunications Officer, Department of Parks and Recreation	82
W.T. WHITE, Chief Telecommunications Engineer, Department of Transportation (Caltrans)	90, 97
DONALD B. BANKS, Associate Telecommunications Engineer, Department of Transportation (Caltrans)	95, 100

(Continued)

TABLE OF CONTENTS (Continued)

	<u>Page</u>
RICHARD GOULDEN, Acting Telecommunications Officer, Department of Parks and Recreation	100
ARCHIE NORIEGA, Telecommunications Manager, Department of Water Resources	104
LARRY MULLNIX, Chief of Operation, Department of Water Resources	105
DIANA TEITZEL, Telecommunications Analyst, Department of Water Resources	111
Capt. WILLIAM SCHAFFER, Commander-Telecommunications Section, California Highway Patrol	116
NELDA NICKELS, Telecommunications Manager, California Highway Patrol	119
Certificate of Shorthand Reporter	122
 * * * * *	
Appendix A -- Copy of SR 52	123
Appendix B -- Appraisal by Mr. E. M. BUTTNER of the deregulation plan of the Department of General Services	125
Appendix C -- Response by Department of General Services to testimony of several witnesses at the hearing	128

---



## Summary of Testimony

The interim hearing was scheduled to take testimony on Senate Resolution No. 52, introduced by Senator Bill Greene, which requested a study of the effect of the dismantling of the Bell Telephone network and the state's telecommunications needs for equipment and services. The hearing focused on the four following questions:

1. What will be the effect of the federal deregulation of the Bell system on the telephone and telecommunications systems of the State of California?
2. Will the state's own purchasing and contracting of telecommunications systems have any impact on the price of such services for private businesses and the general public?
3. How can we ensure that state departments and agencies only contract for the services actually needed, at the lowest price possible?
4. How should state government organize itself to assure the most effective purchasing, from both a quality and price viewpoint, from the array of services which may be offered?

Spokesmen for Pacific Telephone and Telegraph Company downplayed the assumption that the creation of the new American Bell Company in January 1983, and the subsequent divestiture of Pacific Telephone in 1984 by the American Telephone and Telegraph Company, would lead to dramatic changes in the organization of the Bell system, it will continue to function perhaps more competitively than before. After the changes have been made, AT & T will continue to provide most long distance service; a new unregulated separate subsidiary (American Bell) will provide terminal equipment; and Pacific Telephone will continue to provide local service, access to the network, and other services the company now provides.

Under the new structure, American Bell will deliver products and services from AT & T. The new company will be divided into two divisions. The Advanced Information Systems Division will service large private corporations and governmental organizations, and the Consumer Products Division will service private homes and small business customers.

At the present time, a total of approximately 65 Pacific Telephone Company employees are engaged in working with the State Department of General Services and other agencies of state government to support existing state communications contracts. It is anticipated by the company that this present workforce will

continue in operation after deregulation and that all current services supplied by the company to the state will continue to be made available.

After deregulation takes effect, AT & T will continue to operate its Long Lines Corporation, Bell Laboratories, and the Western Electric Corporation. In addition, AT & T also will assume the intrastate, interexchange operations of the local operating companies. The new independent subsidiary, American Bell, will manufacture and supply terminal equipment, and the present 22 local operating companies in the Bell System will be reorganized into 7 regional holding companies. The regional holding companies will be independent of AT & T and one another, with separate boards of directors and officers. The Pacific Telephone Company will form one regional company with Nevada Bell.

The regional companies will own all local exchange equipment, wires, and Yellow Pages, but will not own the equipment on a customers premises. The new regional companies will be able to sell equipment to customers and others, in a competitive marketplace with any other providers of such equipment.

The Department of General Services representatives testified that the annual telecommunications expenditures of the state at this time total over \$85 million. Of this amount, 96% is spent on service charges, mostly to the Pacific Telephone Company. The price the state will have to pay for this service after deregulation is uncertain. Some experts estimate rate increases of approximately 200-300%, but it is possible that the competitive marketplace could result in cost savings.

The Communications Division of the Department of General Services has prepared both short-term and long-term plans for the period after deregulation. Under the short-term plan the Division will consider alternatives to the present transmission facilities, and the methods by which telephone equipment is acquired. The Division will provide engineer assistance to state agencies, as needed, and will develop technical specifications for soliciting competitive bids. The specifications may include a "turnkey" operation, in that the vendor-contractor might be required to provide the in-house cabling, in-house wiring, and if appropriate the maintenance service.

Under the long-range plan, the Division will continue to investigate the feasibility of the state partially or totally ~~operating its own telecommunications service.~~ This might include the state owning the switching and transmission facilities now provided by telephone utilities.



Other witnesses testified that in terms of the installed base of telephone terminal machines, key systems, and PBX systems; the present Bell System holds about 60% of the installed base, the independent telephone companies about 20%, and the new interconnect industry about 20%. Over the next five years, due to competitive factors, the new interconnect industry share of this market might increase to about 50% of the base. As a result, the state may have a major opportunity over the next year or so to achieve cost savings.

A witness from the new interconnect industry was asked by members of the committee to review the Department of General Services report outlining the department's plans for coping with the pending deregulation of the Bell System. The appraisal by the witness is published in Appendix B of this transcript.

Several state employees from the telecommunications field testified at the hearing. They voiced complaints that communications services supplied to state agencies by the Department of General Services were often overpriced, poor in quality, and slow in delivery. The committee has requested the Auditor General to review these complaints, and a report from the Auditor General is expected in the near future.

\* \* \* \* \*

P R O C E E D I N G S

---oOo---

CHAIRMAN DILLS: Any senators within the hearing of my voice who are members of the Governmental Organization Committee, will you please come to the hearing room? We are about to open the hearing on the Senate Resolution Number 52.

Good morning ladies and gentlemen. The hearing today is in response to Senate Resolutaion Number 52, offered by Senator Bill Greene, which requested an interim study of the effect of the dismantling of the Bell System telephone network and the State telecommunications needs for equipment and services. The resolution was assigned to this committee by the Senate Rules Committee.

It is clear that after next January 1st the deregulation of the Bell system as ordered by Federal court decree will change in a major way the manner in which the State of California conducts business for the telecommunications services. The creation of multiple suppliers and the design and development of many different telecommunications systems provides both challenges and opportunities for state government as one of the largest users of such systems and services.

At the hearing today we will be concerned with the following questions: First, what will be the effect of the deregulation of the Bell system on the telephone and telecommunications systems of the State of California? Second, will the State of California's own purchasing and contracting for telecommunications services have any impact on the price of such services for private businesses and the general public? Third,

1 how can we ensure that state government departments and agencies  
2 only contract for the services they actually need, at the lowest  
3 price possible? And fourth, how should state government  
4 organize itself to assure the most effective purchasing, from  
5 both a quality and price viewpoint, from the array of services  
6 which may be offered?

7 The subject matter of the telecommunications systems  
8 and services is highly complex. Several members of this  
9 Committee have some familiarity with the subject; others of us  
10 do not. The hearing today will be both informational and  
11 educational for the Committee, and I request all witnesses to  
12 present their testimony in as non-technical a fashion as  
13 possible so that we can obtain maximum value from it.

14 At this point I would like to thank all the witnesses  
15 who will testify today. The Committee members will follow your  
16 testimony closely, and your comments and suggestions are vital  
17 to our understanding of this issue.

18 We have a very long agenda, as you probably have  
19 noted, if you have walked to the front and secured a copy of  
20 it, which is still available. And so we might proceed at this  
21 time so that we may complete this hearing this day, if possible.

22 I want to welcome to the Committee the members  
23 Jim Ellis, to my right, Senator Ellis; Senator Robert Beverly.  
24 To the left, Senator Bill Greene and Senator Paul Carpenter.

25 Senator Greene, do you have a statement to make at  
26 this point?

27 SENATOR GREENE: Not a statement as such, but let me  
28 indicate for the record and for the members of the Committee that

1 I initially became alerted to this specific matter through the  
2 Communication Workers brought before the court. They had filed  
3 a rule, and they wanted to know if anyone up here was considering  
4 the possible effects of this matter, if the court ruled in the  
5 manner in which they ultimately ruled. And of course, we know  
6 about the Federal Legislature.

7 The point that caught my attention, of course, was  
8 the fact California is the number one customer of the telephone  
9 company. Bigger than any industry or any firm or what have you.  
10 The usage of telecommunications by state government is so  
11 multi.

12 One point that was brought home to me was, for example,  
13 the deal with emergency services. And they were pointing out  
14 the kinds of problems that exist right now under the old system.  
15 For example, I understand when our California National Guard  
16 goes on maneuvers that frequently one unit can't communicate  
17 with the other. So that's the kind of problems that exist now,  
18 and the figure that struck my attention. And then, of course,  
19 the argument about the costs, what kind of new world it's  
20 going to be. You know, they have multi firms competing for  
21 the sale of the equipment, and this kind of thing; whether or  
22 not the State had a plan. These kinds of things are the things  
23 that caught my attention, and in fact started me to stirring  
24 around.

25 There are many aspects of it, as the members of this  
26 Committee know from the work of another one of our city committees,  
27 some ugly aspects of it have even cropped up. So I think  
28 when we view the whole thing -- the greatest impression was

1 made on me when people said, "Well, just imagine when the  
2 computer world came on the scene and what we had." And they  
3 said that, "Senator, this one is bigger."

4 So I just -- that's the framework. I don't know the  
5 answer, but I think we need to find out where the thinking is,  
6 what the future is. It's not up to us to run it, and the  
7 resolution isn't intended in that regard. However, we do have  
8 a responsibility in seeing that as it relates in the policy.  
9 So I'll drop it right there, Mr. Chairman.

10 CHAIRMAN DILLS: Thank you, Senator. We appreciate  
11 your comments and giving us a background into the resolution  
12 which has been referred to as -- by the Rules Committee.

13 May we proceed with the witnesses at this time, and  
14 I want to add to those that are present, we welcome Senator-  
15 elect and present Senator Keene. Happy to have you present  
16 at this hearing today.

17 SENATOR KEENE: Thank you, Senator.

18 SENATOR GREENE: Mr. Chairman, I have one important  
19 point that I neglected to make, if I may.

20 The telling thing on me was I was informed that our  
21 communication systems now are basically under the old  
22 organization plan that was run by the telephone company. Any-  
23 thing that needed -- any decisions that really needed to be  
24 made as it relates to an overwhelming majority operation of the  
25 telecommunications systems, the telephone company is right there  
26 next door. And in fact, downstairs there's a corridor or  
27 walk-through that connects this division of General Services  
28 of the telephone company. So really, decisions were made by

**PETERS SHORTHAND REPORTING CORPORATION**

3435 AMERICAN RIVER DRIVE, SUITE A  
SACRAMENTO, CALIFORNIA 95825  
TELEPHONE (916) 972-8894

1 the telephone company. The telephone company's posture now is  
2 going to be totally different. They aren't going to be there  
3 next door. So I don't mean to condemn the people in the  
4 telecommunications who are state employees. I am not in a  
5 position to do that, and I have no desire to do that. There are  
6 people in the private sector that don't know answers yet in  
7 this regard, so it's logical that our people, never having the  
8 experience of running a system like this on their own or  
9 almost on their own, and then given the fact that it's so new,  
10 that's -- so I just wanted to add that.

11 CHAIRMAN DILLS: Thank you.

12 Don Clark, the marketing manager for Pacific Telephone  
13 and Telegraph Company.

14 Is Mr. Clark here?

15 Come forward, please, and may we ask that the  
16 witnesses use these microphones, here, because that one sprung  
17 a leak and we need some telecommunications help.

18 MR.ROYALTY: Good morning, Mr. Chairman and members.  
19 Thank you for your words of welcome, and we are very happy that  
20 you are having this hearing, because we find that there is a  
21 great deal of mystery and misconception about what's happening  
22 to the Bell System. In fact, although the changes are very  
23 broad, they are very simple in nature. Those services that  
24 are subject to competition will be offered by unregulated  
25 companies and other services will continue to be offered by  
26 regulated utilities.

27 In reading some of the materials that were distributed  
28 in advance, I found there an assumption that is easy to reach,



1 but erroneous. And that is that the creation of American Bell  
2 in January of '83 and the subsequent divestiture of Pacific  
3 Telephone by A T & T in 1984 will cause dramatic changes in  
4 the costs in the way the telecommunications business is run.

5 In fact, the reverse is somewhat true. Most of these  
6 changes are already happening. We already have substantial  
7 competition in the provision of terminal equipment and long  
8 distance services and other services. And the two organizational  
9 developments that we will discuss are more the result of these  
10 changes than they are the cause.

11 I respectfully suggest, Mr. Chairman, that the  
12 expression "the dismantling of the Bell System" is perhaps  
13 too strong and emotion-laden to describe the situation accurately.  
14 It is true that there will be some fundamental changes in the  
15 organization of the Bell System, but remember that the  
16 component parts of the Bell System will still be functioning  
17 and functioning strongly. Perhaps more aggressively than  
18 before, because we will be free of certain regulatory  
19 constraints. After these changes the AT&T will still provide  
20 most of your long distance service as it does now. An  
21 unregulated subsidiary will be providing terminal equipment,  
22 and I assure you that Pacific Telephone will still be in place  
23 providing local service, access to the network, and other  
24 services that we provide even now.

25 Our witness this morning is Mr. Don Clark who is  
26 Pacific Telephone's marketing manager for the State of  
27 California account, and he will explain the changes in the  
28 Bell System and how they may enhance our ability to serve the

1 state.

2 MR. CLARK: Thank you, Reed.

3 Let me begin by giving a brief definition of my  
4 existing responsibility. I manage the marketing organization  
5 of Pacific Telephone Company, assigned to the State of California.  
6 What currently exists is a group of 65 people interfacing with  
7 State Department of General Services and all the various  
8 agencies in all locations in the State of California. These  
9 65 people are located primarily here in Sacramento, but we  
10 also have people in Los Angeles, San Diego, Orange County,  
11 San Francisco, and Santa Rosa to support the existing state  
12 communications requirements.

13 This organization basically as a marketing group has  
14 three separate functions in it and three separate skills, if you  
15 will. One is a sales function where our people are making  
16 proposals of communications recommendations to various state  
17 agencies and telecommunications organizations; second function  
18 is technical support where people support the basic design  
19 of the systems that we would recommend; and the third one is  
20 the administrative support. And these are the people that  
21 interface with all the state organizations on a day-to-day  
22 basis to handle ongoing maintenance problems, changes, moves,  
23 etcetera. The basic day-to-day activity as it would pertain  
24 to the services provided by Pacific Telephone Company.

25 Understanding that, I would call your attention to  
26 the written statement that we have already delivered to the  
27 Committee, and basically highlight what we discuss in that  
28 written statement. Generally we are depicting our existing

1 organization and how we are organized to interface with the  
2 various state departments and agencies.

3 Secondly, we talk in terms of basically some of the  
4 principles of how we plan and intend to do business with the  
5 State of California, and talk in terms of some of the evaluation  
6 criteria that we use in the formulation of the suggestions,  
7 recommendations that we would make to our organization.

8 We have a brief description of the range of services  
9 currently provided by Pacific Telephone Company, and very  
10 short discussion which I will elaborate more on in my testimony  
11 about what we see as the future of Pacific Telephone and  
12 Bell System. So that in summary is the comments of the  
13 statement we have delivered to you in writing.

14 Mr. Chairman, my testimony today will be directed  
15 to your first question. We feel that's the one that pertains  
16 specifically to us. If I may take a minute and restate that  
17 as written in your agenda:

18 "What will be the effect of  
19 deregulation of the Bell System on the  
20 telephone and telecommunications systems  
21 of the State of California?"

22 Well, to begin to understand this and be reflecting  
23 a Bell perspective, I guess, in the eyes of the Bell System  
24 there have been two major external Federal governmental actions  
25 influenced the future of our organizations. To begin with,  
26 Federal Communications Commission, Computer Inquiry II decision  
27 rendered in 1980 told us that if we are to market terminal and  
28 enhance network systems in the future, we will have to do this

**PETERS SHORTHAND REPORTING CORPORATION**

3435 AMERICAN RIVER DRIVE, SUITE A  
SACRAMENTO, CALIFORNIA 95825  
TELEPHONE (916) 972-8804

1 through a fully separated arms length subsidiary. At that time  
2 the FCC told the Bell System you have 18 months to prepare for  
3 us. How do you plan to do this? And originally that led us  
4 to a date of March first of 1982 which was subsequently extended  
5 to be January first, 1983.

6 The second major external influence on the future of  
7 the Bell System which we will deal with in more depth later  
8 was the settlement of the long-standing antitrust case against  
9 American Telephone and Telegraph. And that resulted in a  
10 modified consent to create modified final judgment of consent  
11 to create earlier this year. And this modified final judgment,  
12 Judge Greene told Bell System that they just divest themselves --  
13 or AT & T must divest themselves from those 22 or 23 existing  
14 operating entities known as the operating companies of the Bell  
15 System of which Pacific Telephone is one. Now that will result  
16 in an activity to take place January first, 1984 where AT & T  
17 will become totally separate from the operating companies as  
18 we know them today. And later my testimony, I will give the  
19 very little bit of information that we know and understand  
20 about how we expect that to develop January first, '84.

21 But I think in view of all that we have seen in  
22 preparation for the hearing this morning, what the State of  
23 California is more concerned with today is what are we going  
24 to look like in 1983 under what has been referred to as

25 deregulation? There will be in place January, 1983 a  
26 regulated entity. And you can consider that to be Pacific  
27 Telephone Company. And they will basically be doing business  
28 with the State of California and other business customers in

1 exactly the same manner we are today, with the exception of the  
2 fact that they will not be marketing new terminal and enhanced  
3 network services that are not already in their inventory. But  
4 they will continue to support the existing installed base of  
5 products and services provided to the State of California and  
6 other business and residence customers in exactly the same way  
7 they do today. This would mean that the basic integral parts  
8 of the state communications system provided by Pacific Telephone  
9 Company, the Network, the voice and data network and the  
10 CENTREX systems that are most prevalent throughout the State  
11 of California will be supported as they are today, and the  
12 direction of the regulated side of the business is to continue  
13 to enhance those services and improve them.

14 On the other side, under AT & T is a fully separated  
15 deregulated subsidiary that will exist, and organization called  
16 American Bell. American Bell will deliver the new products  
17 and services from AT & T. Essentially it will become the  
18 distribution channel for all the new products and services,  
19 or those systems installed after 1-1-83, and will be an  
20 organization of national structure.

21 American Bell will basically have two divisions within  
22 it, one being known as advanced information services --  
23 advanced information systems, I should say, which will market  
24 to the business customers to include the various state and all  
25 other governmental organizations. They will also have a  
26 consumer products division that will market to the residence  
27 subscriber and the single line business subscriber.

28 Now American Bell was really first organized in the

**PETERS SHORTHAND REPORTING CORPORATION**

3435 AMERICAN RIVER DRIVE, SUITE A  
SACRAMENTO, CALIFORNIA 95825  
TELEPHONE (916) 972-8894

11

1 beginning of this year to provide one product, an enhanced  
2 network service called Advance Information Services, Net I.  
3 American Bell filed its capitalization plan in January and was  
4 approved for that one product in the June timeframe. American  
5 Bell subsequently July 2nd of this year filed a capitalization  
6 plan to put in place 1-1-83 a national sales organization to  
7 sell terminal and enhance network services in a deregulated  
8 environment effective 1-1-83. The FCC had 180 days to approve  
9 that capitalization plan, and that was just recently approved  
10 on November 4th. So in our opinion at this point in time the  
11 last roadblock to the emergence of this deregulated subsidiary  
12 has been removed just several days ago.

13           Now I'd like to now be more specific as best I can  
14 with all the information available to us now as to how we would  
15 expect both of these organizations, the regulated and the  
16 deregulated, to interface with the State of California in 1983.

17           To begin with, in the regulated side which you can  
18 expect to exist as Pacific Telephone Company here will be a  
19 marketing branch organization very similar to the one I manage  
20 today in place supporting the existing base of products and  
21 services exactly as we do today. That organization will be  
22 composed of 75 percent of the people the are working with the  
23 state today. And as I mentioned earlier, that organization is  
24 approximately -- is exactly 65 people today. It will maybe  
25 be something just less than that. There will be a marketing  
26 manager here in Sacramento directing the activities of those  
27 resources, and they will be structured in exactly the same  
28 fashion that I defined earlier as my organization exists today.



1 Sales support, technical support, and administrative support.

2 The products and services that will both be market  
3 to the State and supported will include the network services  
4 that exist, include both the voice and data network, and also  
5 continued support to existing CENTREX systems that interconnect  
6 to the network.

7 It's been committed by the new vice-president of the  
8 regulated marketing organization of Pacific Telephone Company  
9 that these services will very definitely be supported in the  
10 same manner they are today, but will also be enhanced. And that  
11 is the current expectation.

12 The basic installation and maintenance and repairing  
13 organization that exists today to support your product and  
14 service base will exist in 1983 in exactly the same structure.  
15 Building support, the same. The directory organization, the  
16 directory support that's provided will remain part of Pacific  
17 Telephone both in '83 and in the future. And exactly the same  
18 support that's been provided to the existing emergency services  
19 subscribed to the state will be intact. So we see with respect  
20 to the systems, products, and services that are currently  
21 subscribed to from the State of California, Pacific Telephone  
22 Company will be supported in virtually the same way they are  
23 today.

24 Now the one major development that we expect to take  
25 place sometime between 1-1-83 and 1-1-84 is that all or part  
26 of the existing -- I will pause for a minute, because I think  
27 it's important, here -- sometime between January 1st, 1983 and  
28 January 1st, 1984 all or part of the existing installed base of

**PETERS SHORTHAND REPORTING CORPORATION**

3435 AMERICAN RIVER DRIVE, SUITE A  
SACRAMENTO, CALIFORNIA 95825  
TELEPHONE (916) 972-8894

1 terminal equipment will be migrated to American Bell. Now that  
2 may happen in stages with certain products and services going  
3 first and others later, but it's anticipated that a certain  
4 portion or all of the installed base at a future point in time  
5 will be migrated to the new deregulated subsidiary. The  
6 reason for that is that it's -- to begin with, January 1st,  
7 1-1-83, the FCC has insisted that the deregulated subsidiary  
8 start as you start any other business, without a billing base.  
9 And the point in time that you would choose to migrate the  
10 existing terminal base would obviously begin to establish a  
11 billing base for the new subsidiary. That in addition to those  
12 products and services that they will begin to sell 1-1-83.

13 SENATOR KEENE: Could I ask a question?

14 CHAIRMAN DILLS: Senator Keene?

15 SENATOR KEENE: What does that mean? I understand the  
16 words, but what does that mean that all or part of the existing  
17 base or terminal base will migrate over to American Bell? Could  
18 you just explain that to me?

19 MR. CLARK: I should explain that that will not  
20 include the CENTREX service, because that's considered to be  
21 the network service. I'm saying terminal equipment where there  
22 is premise base terminal service. PBX systems, data terminals,  
23 this type of equipment that is separate from the network  
24 services would be moved from the asset of the existing operating  
25 company to become an asset of the new subsidiary.

26 SENATOR KEENE: Okay. And who decides what moves and  
27 what stays?

28 MR. CLARK: Well, the FCC will make that call.

1 SENATOR KEENE: And where is the breakdown likely to  
2 take place between what stays and what goes?

3 MR. CLARK: Well, okay. It's been discussed in  
4 terms of new electronic switching systems that are currently  
5 installed. That would be basically our dimension PBX and our  
6 Horizon switchline are considered -- the electronic switching  
7 systems would be considered those premise-base terminal services  
8 that would be moved from the asset base of the existing operating  
9 company to the asset base of the new subsidiary. Also existing  
10 data terminal-type equipment, our line of model forty-three  
11 forty-five forty terminal, data terminal equipment. Keyboard  
12 display equipment would be also considered for that move from  
13 the asset base of the company to the new subsidiary.

14 Now those services that I just mentioned are going  
15 to be some of the services that will be provided by the new  
16 subsidiary in the future. And it's recognized, I believe, that  
17 at a point in time that the FCC sees it appropriate, that it's  
18 in the best interests of most of our business and governmental  
19 customers to have a clear definition of which Bell entity they  
20 should do business with. If you are dealing with basically  
21 network and exchange-type services, you will deal with the  
22 regulated side of the business. If you are dealing with  
23 terminal and enhancement network-type services, you deal with  
24 the new regulated organization. But there is currently a  
25 mix of those services that the deregulated organization will  
26 be selling that exists in our current base period. So to make  
27 it a little easier for the business and government customer  
28 to do business with Bell, we need to make that decision as soon

15  
1 possible. That's why the separation of exchange and network  
2 and terminal-enhanced services --

3 SENATOR GREENE: Mr. Chairman, question?

4 CHAIRMAN DILLS: Senator Keene?

5 SENATOR KEENE: I think I'm getting it.

6 SENATOR GREENE: Let me ask you, sir, what happens  
7 if a customer has about an even mixture of both in the services  
8 that they need? How would an agency handle that?

9 MR. CLARK: Well, Senator, that's going to be -- there  
10 aren't real clear definitions of that right now, but if I may,  
11 I will speculate. What we'd expect that most your agencies do  
12 have a mixture of those types of services.

13 SENATOR GREENE: That's why I asked the question.

14 MR. CLARK: We would expect that those network and  
15 exchange services that will be provided and supported and  
16 built by the regulated organization would be managed in  
17 exactly the same fashion they are today. Those products and  
18 services that will in the future be marketed and supported by  
19 the new separate subsidiary would become part of their asset  
20 base and building base. And the definition of the distinction  
21 between the regulated and the deregulated would be that network  
22 and exchange-type services remain with the regulated side of the  
23 business, and appropriately so. The terminal premise-based  
24 systems products and services would eventually become the  
25 property of the new deregulated subsidiary. So that would  
26 make the deliniation that in my mind, by the end of the year,  
27 would simplify it for the business and governmental subscriber  
28 to understand who they are doing business with. Network Exchange,

1 regulated, terminal, premised-based equipment I see right here  
2 in front of me, I talk to American Bell.

3 Does that answer your question, Senator?

4 SENATOR GREENE: No, not really. But I guess that's  
5 the best answer you can give.

6 MR. CLARK: I -- we expect to add considerably more  
7 definition to this, and as I said, the decision on what and how  
8 this is to take place will rest with the Federal Communications  
9 Commission. And as of right now we don't fully understand  
10 exactly when that's going to happen.

11 SENATOR GREENE: Okay. Maybe it was an improper  
12 question to ask with any expectation of you being able to  
13 say anything definite, but okay, I'm sorry. Go ahead.

14 SENATOR KEENE: Could I ask one more?

15 CHAIRMAN DILLS: Senator Keene:

16 SENATOR KEENE: What is the relationship between --  
17 the deregulated entity will still be AT & T?

18 MR. CLARK: Yes, for the period 1983.

19 SENATOR KEENE: And then it will be called something  
20 else?

21 SENATOR GREENE: Unregulated after that.

22 SENATOR KEENE: Well, the unregulated will be  
23 American Bell; the regulated will be what, do we know?

24 MR. CLARK: For 1983 you can expect that to be  
25 Pacific Telephone Company.

26 SENATOR KEENE: Okay. And after that?

27 MR. CLARK: After that -- I intend to deal with this  
28 later -- after divestiture Pacific Telephone Company and the

**PETERS SHORTHAND REPORTING CORPORATION**

3435 AMERICAN RIVER DRIVE, SUITE A  
SACRAMENTO, CALIFORNIA 95825  
TELEPHONE (916) 972-8894

1 boundaries of California and Nevada would become one of seven  
2 fully divested corporations from AT & T, but still a regulated  
3 entity.

4 SENATOR KEENE: So the use of the term "subsidiary"  
5 means what?

6 MR. CLARK: Use of the term "subsidiary" for the  
7 period of 1983 refers to American Bell, the deregulated  
8 subsidiary.

9 SENATOR KEENE: Okay. And after that?

10 MR. CLARK: After that American Bell still exists  
11 as a subsidiary of AT & T, but AT & T, American Bell, Western  
12 Electric, Bell Laboratories, AT & T Longlines Corporation, all  
13 those I have just mentioned being subsidiaries of AT & T  
14 become one entity, marketing and supporting terminal premise-  
15 base equipment systems and enhanced networks. And the seven  
16 totally divested, what we now know as operating companies, the  
17 existing 22 operating companies are grouped into groups of  
18 seven, becoming seven independent corporations independent of  
19 AT & T.

20 SENATOR KEENE: And we will have no relationship  
21 with American Bell, no corporate relationship, not the same  
22 management or any interlocking or anything of any kind?

23 MR. CLARK: That's true.

24 SENATOR KEENE: Thank you.

25 CHAIRMAN DILLS: Thank you, you may proceed.

26 MR. CLARK: Okay. Now I believe I have covered how  
27 we would expect the regulated organization to interface with  
28 the State of California during 1981. Now I'd like to talk



1 about how we would expect the deregulated subsidiary of AT & T,  
2 American Bell and the Advanced Information System Division of  
3 American Bell.

4 As I explained, the organization will interface with  
5 business and governmental customers. How we will expect -- and  
6 a good deal of definition is still on the way as far as this  
7 is concerned. But if I may give you my expectations of how  
8 that organization would interface with the State.

9 First of all, there would be two organizations within  
10 the Advanced Information System Division of American Bell. One  
11 would be focused on what we call industry markets which would be  
12 those large business customers and governmental customers. The  
13 other will be focused on the lower end of the business market  
14 which we call the general business systems organization which  
15 will market essentially what you might consider the small business  
16 customers. Two distinct national organizations. The one, of  
17 course, that will interface with the State of California would  
18 line up on the industry marketing organization.

19 There will be in place January 1st, 1983 a national  
20 marketing organization of approximately 4,000 people reporting  
21 to a new head of American Bell subsidiary located in New Jersey.  
22 This industry marketing group will have four regional organizations.  
23 One being the Pacific Company's region which will have approximately  
24 six to 700 people in the Pacific Coast selling the new  
25 terminals and premise-based equipment offered by American Bell.

26 There will be in place national pricing. As you are  
27 probably aware, due to regulated environment that all existing  
28 operating companies exist in right now, various products and

1 services provided by the Bell System are priced based upon the  
2 tariffs provided by the regulating authorities of different  
3 states. But for the first time the products offered by  
4 American Bell will be on a standard pricing basis offered  
5 at the same price in New York as they will be here in Sacramento.

6 The products and services that this organization  
7 would expect to market would be some that we are marketing  
8 today. What we consider to be the new premise-base switch  
9 equipment, basically our dimension and rising product line  
10 in addition to our current flagship line of data terminals.  
11 Also be marketing enhanced network services. Now that can best  
12 be defined as those services that network services that provide  
13 more than just transmission of voice or data information where  
14 actual processing is taking place on the information in  
15 addition to just the movement of that information from one  
16 location to another. In the product that's currently being  
17 offered that equates to that is the Advanced Information System  
18 Net I.

19 And now for sake of your request to not get into  
20 too much technical information, I will try to describe that.

21 In the future this organization will also be bring  
22 new products and services to the market that have been  
23 discussed in some national publications, but are not yet  
24 available. And we will be attempting to meet the needs of

25 future markets in the area of converging technologies, converging  
26 a voice and data system with other applications of energy,  
27 security systems where has been alluded to (sic) in the  
28 middle of an explosion in the information processing business,

1 and we would expect that in the decade ahead of us that both  
2 American Bell and other organizations are going to bring to  
3 the market a line of product and services of enhanced capability  
4 to meet the office of the future requirements.

5 American Bell will start with a sales organization  
6 and with no installed base. Until such time that those products  
7 and services that's selling are recommended by the FCC to be  
8 moved to its billing base. As a result, it will not have  
9 immediately a service and support organization, but will  
10 contract with the existing operating companies to provide  
11 the service and maintenance support for the systems that they  
12 will be selling and having installed. But it's expected  
13 during that year as that base of services provided by American  
14 Bell begins to grow, that it's planned to build a separate  
15 installation and maintenance organization to support American  
16 Bell in the future. That will come on line as dictated by  
17 the need sometime in 1983.

18 The advantages we feel American Bell can offer to  
19 the State of California is that for the first time we are going  
20 to have some pricing flexibility that hasn't existed before  
21 due to the regulated environment. As you know, everything that  
22 Pacific Telephone currently offers has got to be on a lease  
23 basis. There are some products and situations that we know  
24 of that for various financial reasons it would be your preference  
25 to purchase a system. Well, American Bell will have a  
26 flexibility to offer a variety of different pricing and  
27 contractual arrangements that currently haven't been available  
28 in the regulated environment. I can't speak to those with any

**PETERS SHORTHAND REPORTING CORPORATION**

3435 AMERICAN RIVER DRIVE, SUITE A  
SACRAMENTO, CALIFORNIA 95825  
TELEPHONE (916) 972-8894

21  
1 specifics today, because that information as of now is not  
2 available. We expect that it would be in the December final  
3 frame. But as I have mentioned earlier, there will be a  
4 national pricing structure and we expect considerably more  
5 options than are currently offered by Bell Systems companies  
6 today.

7 So in summarization of looking at 1983, how the  
8 Bell System will interface with the State, we see that on the  
9 regulated side network and CENTREX services, we are going to  
10 continue to maintain continuity and provide essentially the  
11 same support that exists today. But on the other hand, we  
12 feel that in the deregulated side we are going to be capable  
13 of offering you new products and services in various circumstances  
14 that will be offered in price and options that will be to both  
15 your benefit and American Bell's.

16 That deals with how we expect 1983 to look. 1984  
17 we have touched on due to Senator Keene's question earlier, and  
18 that's really something that we have very little information  
19 on, other than that the modified final judgment from Judge  
20 Greene with respect to the antitrust case with AT & T does  
21 call for AT & T to divest itself of those 22 operating  
22 companies that exist today, and it has been decided that they  
23 will do that in such a way that they will form seven new  
24 corporations divested from AT & T.

25 As I mentioned earlier, the boundaries of California  
26 and Nevada become one of those seven. So that will continue  
27 to be a deregulated organization. However, Judge Greene's  
28 decision does say that. They will have the opportunity if

1 they choose to do so, to create their own arms length subsidiary  
2 to market terminal and premise-based equipment as AT & T is  
3 intending to do in 1983.

4 MR. ROYALTY: Pacific telephone will continue to be  
5 regulated. I think you said deregulated.

6 MR. CLARK: Will continue to be regulated, but  
7 Judge Greene's decision does leave the door open for them to  
8 form a deregulated arms length subsidiary to provide terminal  
9 equipment. And we don't know what to expect there.

10 That basically concludes my prepared testimony.

11 CHAIRMAN DILLS: Thank you, Mr. Clark.

12 Any questions?

13 Senator Keene?

14 SENATOR KEENE: If American Bell is deregulated and  
15 presumably functioning in a competitive environment, there  
16 need not be any assumption, I take it, that the State will  
17 have to deal with American Bell. The State can deal with one  
18 of it's competitors, as well, but the State will have to  
19 continue to deal with PT & T to provide the network and exchange,  
20 the basic stuff. My terminology is not good.

21 MR. CLARK: The State really doesn't have to deal  
22 with PT & T today before a variety -- I can't speak with  
23 absolute exception, but I would have to say that virtually all  
24 the product services offered by PT & T today can be provided  
25 today by other vendors.

26 SENATOR KEENE: Other than the network and exchange?

27 MR. CLARK: Including the network and including the  
28 CENTREX. Similar-type systems that are the -- are in place

**PETERS SHORTHAND REPORTING CORPORATION**

3435 AMERICAN RIVER DRIVE, SUITE A  
SACRAMENTO, CALIFORNIA 95825  
TELEPHONE (916) 972-8804

1 today through Pacific Telephone can be provided by other  
2 organizations. But I don't think this really gets at your  
3 questioning quite yet. But they will continue to interface  
4 with the regulated side of the business, Pacific Telephone,  
5 as it pertains to those products and services provided today.  
6 And they are under no obligation to do business with American  
7 Bell. American Bell, January 1st, 1983, becomes another  
8 vendor of telecommunications and teleprocessing systems and  
9 services that we feel will be very attractive to the State,  
10 but essentially would be another deregulated vendor.

11 SENATOR KEENE: Let me use my overly simplistic  
12 analogy. PT & T will continue to be a pipeline. And what you  
13 hook onto the pipeline will be handled by competitors, and you  
14 can go to different people, including American Bell?

15 MR CLARK: I think that's a good analogy. But the  
16 network systems in some instances could be also acquired elsewhere.

17 SENATOR KEENE: They would be?

18 MR. CLARK: Sure.

19 SENATOR KEENE: Thank you.

20 CHAIRMAN DILLS: Senator Greene?

21 SENATOR GREENE: Let me ask after 1983, which will  
22 be entering into '84, on the regulated side with the CENTREX  
23 and voice and data systems, will that arrangement go on  
24 forever, or is that going to be subject to contract?

25 MR. CLARK: After January 1st, 1984?

26 SENATOR GREENE: Right. Is that going to be subject  
27 to go out as you responded to Senator Keene, that the State  
28 could now go out and acquire the same services elsewhere, except



1 that's probably only been the case for about the last 15 years.  
2 It hasn't always been the case.

3 MR. CLARK: Since various Federal decisions.

4 SENATOR GREENE: Right. But on the regulated side  
5 is that going to be subject to the contract competition?

6 MR. CLARK: Contract competition?

7 SENATOR GREENE: In other words, will you have to  
8 compete with other firms in that regard on a much more intense  
9 competition?

10 MR. CLARK: On the regulated side?

11 SENATOR GREENE: Right, after beginning '84. Obviously  
12 you are going with the advantage you are there, you are  
13 established, you are big and what have you. There are some  
14 changes obviously going to come about to some degree.

15 MR. CLARK: Well, those network services that exist  
16 today and are provided by Pacific Telephone Company -- and  
17 let's use CENTREX as an example. CENTREX is a network service,  
18 would be supported by that fully divested operating entity in  
19 the same way it is today. Now CENTREX service can be replaced  
20 by products and services from either American Bell or any  
21 number of other vendors that can provide basically premise-  
22 based switching equipment that will offer essentially all, and  
23 in some cases maybe more and better features than the existing  
24 CENTREX does. But the regulated side of the business recognizes  
25 the importance of that CENTREX service to their building base.  
26 And I am sure will continue to support that and enhance it and  
27 improve it so that I would expect in the years ahead of us, the  
28 immediate years ahead of us, the next three or four, CENTREX

**PETERS SHORTHAND REPORTING CORPORATION**

3435 AMERICAN RIVER DRIVE, SUITE A  
SACRAMENTO, CALIFORNIA 95825  
TELEPHONE (916) 972-8894

1 will remain a very viable system for a large organization.

2 Does that help answer your question?

3 SENATOR GREENE: Yes.

4 CHAIRMAN DILLS: Any further questions?

5 Thank you very much. We appreciate the attempts to  
6 clarify this very complicated situation for those of us who  
7 have had other things on our minds for several months.

8 MR. CLARK: Thank you, Mr. Chairman.

9 CHAIRMAN DILLS: Julian Camacho, Deputy Director,  
10 Department of General Services.

11 MR. CAMACHO: Mr. Chairman, I am Julian Camacho,  
12 Deputy Director of the Department of General Services. With  
13 me today is Mason Riegal, to my right. He is the Chief of the  
14 Communications Division, Department of General Services; and  
15 Mr. Fralick, James Fralick, who is a supervising engineer in the  
16 Communications Division, Department of General Services.

17 You are correct, Senator, that divestiture of  
18 American Bell, the deregulation of the industry will result  
19 in significant challenges and opportunities regarding the  
20 effectiveness of telecommunications systems and the State of  
21 California, it's been told, practices. The industry in its  
22 delivery and distribution channels will undergo fundamental  
23 changes with respect to control specifications, solicitation of  
24 business and maintenance of so-called imbedded equipment.

25 I'd like to outline for you our presentation today,  
26 if I may. We will begin with the presentation of the State's  
27 telecommunications expenses and the distribution of those  
28 expenses so that you may see the significance of the equipment

1 the State has in communications. We will describe the most  
2 probable impact of deregulation on State government, we will  
3 provide a description of our telecommunications equipment plan,  
4 Mr. Chairman, that we have had delivered to your office. And  
5 that plan will result in information and visibility that will  
6 provide for an inventory control system, the requirements  
7 planning process, and significance and control methods,  
8 maintenance methods. And this will be provided to you given  
9 today's legislative restraints. We will provide a description  
10 of the limitation of today's legislation in our procurement  
11 of those highly technical and complex systems, and we will make  
12 recommendations regarding perhaps some legislative rework.

13 If I may, I'd like to use the visual aids.

14 SENATOR DILLS: Let's see, do we have a mobile -- you  
15 may want to use the microphone or perhaps take it with you.

16 MR. CAMACHO: Again, Mr. Chairman, to sensitize the  
17 Committee on the nature of commitment the State has, we have  
18 here the annual telecommunication expenditures of the State of  
19 California, and they total in excess of \$85 million. These  
20 are expenses. These up here -- these appendicies appear in the  
21 budget under the expense budget for various departments when  
22 they make their presentations to budget committees.

23 Seventy-two percent of the total \$85 million is  
24 dedicated agency expenses, and that totals \$61 million. Shared  
25 network services, for instance ATSS and ATSDS, 28 percent of the  
26 total amount of money, and that's \$24 million.

27 Are there any questions on that?

28 The State telephone system composition, simple

**PETERS SHORTHAND REPORTING CORPORATION**

3435 AMERICAN RIVER DRIVE, SUITE A -  
SACRAMENTO, CALIFORNIA 95825  
TELEPHONE (916) 972-8894

1 telephone services, and those are very much like your  
2 telephone at home, represent 31 percent of your installations.  
3 Dedicated agency PBX services, they support 19,000 telephones  
4 and are nine percent of our system composition. Complex  
5 CENTREX services supporting 120,000 telephones represents 60  
6 percent of the 200,000 telephones in service, and I think that  
7 was Senator Greene's concern, is what is the nature of the  
8 support that PT & T will provide to our centrex service.

9           This gives you a very quick perspective of where the  
10 money goes so far as service charges are concerned. Four  
11 percent of the total \$85 million telephone charges are  
12 represented by moves and changes, and that's \$2.6 million.  
13 Remainder 96 percent is service charges to the -- because of  
14 the imbedded system, and that is \$82.4 million.

15           This bar chart, here, detects the effect of the  
16 single line program move charges. We have for a number of  
17 years been advocating that agencies use single telephones --  
18 single line telephones as opposed to key systems, because  
19 they are much easier to maintain, much easier to support. And  
20 the only move and change charges have been steadily decreasing  
21 because of the policy of the Department of General Services  
22 Communications Division.

23           There are 9400 total systems in state service, and  
24 this bar chart gives you an illustration of the distribution  
25 of the monthly system charges, as opposed to the number of  
26 system bills. For instance, some -- of these 9400 systems,  
27 8960 of them represent bills that are received less than \$1,000.  
28 And of the -- ten of the systems represent bills less than

1 \$10,000. And of that, some 60 of the systems represent  
2 bills over \$1,000. So you can see the distribution of the  
3 billing process the State goes through. It's very detailed,  
4 requires a great deal of support.

5 SENATOR BEVERLY: May I ask a question?

6 What do you mean by "a system"?

7 CHAIRMAN DILLS: Could you identify yourself?

8 MR. RIEGAL: I'm sorry, Mason Riegal, State  
9 Communications Division.

10 A system can represent a small key system up to a  
11 large PABX system ranging from 200 lines, 500 lines, up to  
12 1,000 or more.

13 SENATOR BEVERLY: You mean a particular agency or  
14 particular cite, is that what we are talking about?

15 MR. RIEGAL: Yes.

16 SENATOR BEVERLY: Is my office a system in my  
17 district office?

18 MR. RIEGAL: Yes.

19 MR. CAMACHO: In your district office that's one  
20 system, and here in the capitol you are part of a second  
21 system.

22 SENATOR ELLIS: Five telephones in a district office  
23 is part of a system?

24 MR. CAMACHO: One telephone could be a system.

25 MR. RIEGAL: It's a separate billing and we consider  
26 that a system.

27 MR. CAMACHO: The ATSS network provides statewide  
28 coverage over 200 agencies and has resulted in reduced interstate

1 cost. This is the State system.

2           Going on to the plans that the State has made, and  
3 basically this flow chart represents a pictorial of the  
4 information that's in that blue binder that we delivered,  
5 represents the State's efforts to come on line with an inventory  
6 control system, a requirements planning process, a procurement  
7 system, and a maintenance process that will result in a  
8 coping strategy with respect to the impending deregulation and  
9 divestiture of AT & T.

10           Mr. Chairman, what I'd like to do at this time is  
11 to ask if there are any questions regarding the presentation  
12 to this stage, and then what I would like to proceed to is a  
13 more in-depth description of the rate, most probably impact on  
14 the budgetary situation of the State of California. That will  
15 be handled by Mr. James Fralick. And then a more detailed  
16 description of our telephone communications operations plan,  
17 and finally summarize with a proposed legislative rework  
18 recommendation.

19           CHAIRMAN DILLS: Proceed.

20           MR. FRALICK: Some of the earlier questions by  
21 Senators Keene and Senator Greene regarding the splitting up  
22 of the Bell System I found most interesting, because it may  
23 well be in each of your district offices you may be faced with  
24 making a decision. Part of your telephone system could well  
25 remain with the Bell regulated entity, part of it could shift  
26 to American Bell. As an example, a district office out of the  
27 Los Angeles area may well have one or two ATSS lines. They  
28 could be CENTREX lines from either the Los Angeles State Building

1 or one of our other CENTREX' in the Los Angeles area. And  
2 the balance of your telephone service could well be normal  
3 business service from Pacific Telephone Company.

4 Formal business -- is it on? The light's gone.

5 The balance of the service could well be business  
6 service from the local telephone company that would eventually  
7 shift to American Bell. So you could be served by two  
8 distinct companies. The Bell regulated entity and the unregulated  
9 American Bell, which would mean two marketing groups, two  
10 maintenance forces. You're going to get about two of everything.

11 Overall state impact, I guess, is about -- anybody  
12 can banty about figures, anticipated rate increases. We do  
13 know there are proposed rate increases before the California  
14 Public Utilities Commission right now totaling very close to  
15 \$1 billion. There is an \$860 million package that was  
16 submitted two or three months ago; last Friday there was  
17 another 160-plus million dollar proposed rate increase  
18 submitted; and there's a \$400 million rate increase submitted  
19 by General Telephone Company of California. Many of these  
20 are being viewed by the Commission staff right now. Decisions  
21 aren't anticipated until mid- or late 1983, however they do  
22 impact all telephone users in California, not only the State.  
23 Normal rate increases have averaged eight to ten percent a  
24 year; however, last year, 1981, we experienced something in the  
25 area of 46 percent. Residential services doubling, I know I  
26 as a user in an independent territory, Citizens Utilities in  
27 Elk Grove, we just got our notice that they requested a  
28 doubling of their residential and business service.

**PETERS SHORTHAND REPORTING CORPORATION**

3435 AMERICAN RIVER DRIVE, SUITE A  
SACRAMENTO, CALIFORNIA 95825  
TELEPHONE (916) 972-8894

1           We are attempting to work with the Commission staff  
2 people as well as Pacific Telephone Company, General  
3 Administration, and General Telephone Company's headquarters  
4 people on negotiating rate stabilization. Mr. Riegal will  
5 discuss that a little more in detail, but it's our hope to  
6 be able to offset that some of these increases. And of course,  
7 look for alternative services such as the competitive  
8 marketplace where equipment can be had to replace many of the  
9 existing services.

10           We propose to develop an orderly plan to review all  
11 systems, be they the one-line or two-line systems to multi --  
12 many thousands of line systems throughout the State of California.  
13 It will take some time, we have some basic data that we will  
14 use, but nothing will replace the actual premise visit to  
15 see just what is out there. Inventory it, look at the date  
16 of the equipment, and is it providing a service to the user,  
17 does it need to be upgraded. All of this is proposed, and  
18 I think you will find much of this discussed in the binder  
19 that we have provided Chairman Dills.

20           I wish I could be more specific about rate impact  
21 as far as deregulation. Everybody's read that it will range  
22 anywhere from ten percent to two or 300 percent. I don't  
23 even believe the telephone company at this point can say for  
24 sure just what is expected as far as rate increases. We would  
25 hope to offset some of these, and certainly look for cost  
26 avoidances in other areas.

27           SENATOR KEENE: Question, Mr. Chairman.

28           CHAIRMAN DILLS: Senator Keene?



1           SENATOR KEENE: Could you estimate what percentage  
2 based on the current cost of our system would move from a  
3 regulated status to a deregulated status?

4           MR. RIEGAL: My best guess, Senator, would be 25 to  
5 35 percent. The majority of State service or telephone systems  
6 today are CENTREX systems such as we have here at the State  
7 Capitol. There are I believe ten CENTREX systems in the State  
8 of California serving State agencies. General Services manages  
9 36 of these CENTREX systems. So my best guess would be 25 to  
10 35 percent would move to the unregulated company.

11          SENATOR KEENE: And would that percentage -- I take  
12 it that percentage would increase as there were new capabilities  
13 available, and the State elected to have those included in its  
14 system?

15          MR. FRALICK: Yes, yes, that would increase.

16          SENATOR KEENE: And is there any way to separate the  
17 cost impact of moving a substantial percentage of 30, perhaps,  
18 and increasing estimating the cost impact of that, moving that  
19 from -- or regulating status to a deregulated status?

20          MR. FRALICK: At this point in time it's impossible  
21 to estimate, basically because no rates have been presented as  
22 yet by the unregulated portion. As Mr. Clark of Pacific  
23 Telephone Company mentioned earlier in his statement, it could  
24 very well be they would have some preliminary rates available  
25 in December of 1982, but at this time we have no idea. We  
26 suspect, as I am sure everybody does, that they will be highly  
27 competitive, but we have no idea.

28          SENATOR KEENE: They would be highly competitive,

**PETERS SHORTHAND REPORTING CORPORATION**

3435 AMERICAN RIVER DRIVE, SUITE A  
SACRAMENTO, CALIFORNIA 95825  
TELEPHONE (916) 972-8894

1 seeking to maximize profits as corporations in the private  
2 sector do, unlike regulated utilities?

3 MR. FRALICK: That's correct. And they will also  
4 be very competitive in trying to replace services such as  
5 CENTREX with premise vehicles, with American Bell's products.

6 SENATOR KEENE: So we could expect a substantial  
7 jump in cost, we don't know how much that jump will be?

8 MR. FRALICK: It could well be with the competitive  
9 market the way it is today, with many good companies out there  
10 providing like equipment in the telephone area, that we could  
11 see very substantial cost savings.

12 SENATOR KEENE: It could go down because of competition?

13 MR. FRALICK: Yes, sir.

14 SENATOR KEENE: That equipment could be available at  
15 less cost?

16 MR. CAMACHO: That's correct, Senator. And that's  
17 going to be the subject of our next presentation by Mr. Riegal.  
18 Just how we are going to document the existence of this  
19 equipment statewide on an inventory process, and how we are  
20 going to cost it out to determine if in fact we are getting the  
21 best bang for our buck, and what kinds of decisions we have to  
22 make in regard to replacement of that equipment, who owns that  
23 equipment. All this information will be part of our inventory  
24 file. And Mason came prepared to discuss our telecommunications  
25 operations plan.

26 SENATOR KEENE: I guess part of my question also is  
27 how many companies will there be in competition with American  
28 Bell and what size will they be and what will the marketplace

1 look like. Will it be truly competitive?

2 CHAIRMAN DILLS: Mr. Riegal, do you desire to get  
3 into the act at this time, whether you desire or not?

4 MR. RIEGAL: Mr. Chairman, members of the committee,  
5 my name is Mason Riegal, and as I identified myself earlier, I  
6 am Chief Communications Director with the Department of General  
7 Services.

8 Communications Division has been working quite  
9 diligently in preparing an operations plan that is -- that  
10 addresses the coming deregulation. We have split our process  
11 into short-term. What we see must be done immediately to deal  
12 with deregulation as it takes effect January 1st. And part two  
13 of our planning development identifies those things long-term  
14 that are obvious that will have to be examined as part of the  
15 technology that is developing now and in the future.

16 In our short-term operations plan we have identified  
17 the need to consider some alternative to our transmission  
18 facilities. Right now we enjoy some very good cost savings  
19 by the telephone companies offering a TELPAX service. TELPAX  
20 service is a pricing concept that allows you to buy telephone  
21 service in bulk and thusly achieve some savings. TELPAX is  
22 being phased out. We expect that by 1984 it will have been  
23 phased out in terms of the cost effectiveness of it. Some of  
24 the alternatives that we are looking at is the use of the State-  
25 owned microwave system which is a very expensive system. In  
26 fact, we have proposed a pilot project to test feasibility of  
27 putting on our own State system, ATSS voice circuits between  
28 here and Chico, and this is scheduled for the fourth quarter of

1 '82-3.

2           There is one other alternative, and this would be  
3 available from the serving utility, Pacific Utility Company, and  
4 that would be some wideband channel offering that would be  
5 competitive with the TELPAX rates as we know it now. This is  
6 still in the discussion phase, and would be continued to be  
7 examined.

8           Most important, I believe, in the plan is how we will  
9 go about telephone equipment aquisition. First of all, there  
10 is going to be a need for a requirements analysis for request  
11 of agencies generated to be sure that their needs are made and  
12 to be sure that it will be met at the least cost. In working  
13 with the office procurement aquisition of telephone equipment  
14 will be by the competitive process.

15           The communications division will provide the  
16 engineer assistance to the agencies as needed and will develop  
17 technical specifications for solicitation of competitive bids.

18           Specifications may include turnkey. This means that  
19 the successful vendor-contractor will be required to provide  
20 the in-house cabling, in-house wiring, and where appropriate,  
21 the maintenance service.

22           Mr. Camacho spoke about the necessity for an  
23 equipment inventory control and management program. And in his  
24 graphics he got an appreciation for the number of systems that  
25 are out there, the number of telephones in service, and the  
26 magnitude of such an inventory system. Built into this inventory  
27 system will be detailed information concerning a schedule as to  
28 when the equipment has reached its useful life and should be

1 replaced. Along with that kind of a program will need to be  
2 established a quality assurance program. And this will be  
3 established within the Office of Procurement to assure that  
4 products are of a quality and value which will meet performance  
5 criteria.

6 One other program that we will be required to  
7 establish, and that's what we referred to as "facilities  
8 management." This will be established within the Communications  
9 Division, it will provide for the control and management,  
10 including the maintenance services of in-house cabling, in-house  
11 wiring of State buildings. And this will necessitate close  
12 coordination of the Office of State Architecture, Buildings,  
13 and Grounds, and Space Management.

14 A very important factor will be provision to provide  
15 training not only for the State agency personnel to acquaint  
16 them with new procedures as they will operate under the  
17 deregulation environment, but there will necessitate technical  
18 training of Communications Division personnel now that we  
19 must undertake to develop technical specifications and provide  
20 State agencies with engineering assistance. And most important  
21 with the additional work load that this is going to create,  
22 will require Comp Division to provide for additional staff.

23 Under our long-range plan we will continue to  
24 investigate the feasibility of the State to provide partially or  
25 perhaps totally their telecommunications services. This would  
26 include State owning switching and transmission facilities which  
27 now are provided by the telephone utilities. Again, we are going  
28 to continue to examine the potential use of the State microwave

1 system, and we have concluded in our 83-84 budget a proposal to  
2 place 360 voice circuits which are presently being released from  
3 Pacific Telephone Company between here and Los Angeles, to be  
4 implemented in 1984.

5 We have examined in the past video transmission for  
6 video teleconferencing in lieu of travel. We have determined  
7 that presently it's not cost effective, but with the advances in  
8 technology, additional video technology, it could be cost  
9 effective in the future. So we will continue to monitor that.

10 We have examined the potential of satellite  
11 transmission. Again, this service is not cost effective for the  
12 State of California. But again, we will continue to monitor,  
13 and as the industry grows and satellite communications, it's  
14 conceivable that there would be some cost benefits.

15 Communications Division currently has a consultant  
16 retained studying the feasibility of a data telecommunications  
17 facility. This would be a State-operated data network service  
18 which would provide a shared network to State agencies, eliminating  
19 some costly dedicated networks. And we believe that there will  
20 be some significant savings to this state, should it be  
21 feasible to proceed.

22 Cable television and fiber optics certainly has a  
23 potential. Rather new technology, fiber optics, and we will  
24 examine the potential of these in their applications to serve  
25 State telecommunications requirements.

26 CHAIRMAN DILLS: Senator Ellis?

27 SENATOR ELLIS: Well, I thought the deal with the  
28 State was somewhat confined to just facilities contained within

1 certain buildings or certain offices such as switchboards and  
2 the circuitry required to provide service to some entity. But  
3 now I hear you talking about networks, State-owned networks,  
4 training program for people to teach them how to cope with a  
5 deregulated environment. My golly, I thought Mr. Camacho's  
6 introductory statement indicated that deregulation is going to  
7 bring about a great deal of savings to us. Now I hear us  
8 stamping in own networks being operated. Where are you going?

9 MR. RIEGAL: Well Senator, perhaps I mislead you, but  
10 any consideration of networks would certainly be -- because of  
11 their cost effectiveness, we don't intend to implement system  
12 networks or other kinds of telecommunications systems unless  
13 there was not some scale of economy to be achieved.

14 SENATOR ELLIS: Well, but if you have a State  
15 telecommunications network statewide, I am assuming you are only  
16 hooking up State offices to it; is that correct? So you can  
17 talk to each other and we can talk to each other. But how  
18 does the outside world tap into that?

19 MR. RIEGAL: It would be no different than the  
20 system we would have today, if you are referring to our proposal  
21 to place on our State microwave system circuits between here and  
22 Los Angeles. It would provide the same service capability that  
23 we enjoy today.

24 SENATOR ELLIS: Well, is the ATSS system a State  
25 system?

26 MR. RIEGAL: Yes, sir, leased from Pacific Telephone  
27 Company.

28 SENATOR ELLIS: Okay, a lease system. When you talk

1 about network are you talking about leasing a network from  
2 somebody else?

3 MR. FRALICK: Not necessarily, Senator. As I mentioned.  
4 we have a very expensive microwave system. Its use is -- and  
5 its capacity is being used at probably about 40 percent. There's  
6 room to provide addition service on that network, or on that  
7 system.

8 SENATOR ELLIS: How does one get on the system?

9 MR. FRALICK: No different than your dialing procedures  
10 today. It would be transparent to the utilizer.

11 SENATOR ELLIS: Well, I'm thinking -- say the State  
12 building in San Diego, they obviously have their own network --  
13 I mean, their own system.

14 MR. FRALICK: Uh-huh.

15 SENATOR ELLIS: Now what are you talking about here  
16 with -- say they wanted to use it. What do they do to use it?  
17 You say it's only 40 percent utilized.

18 MR. FRALICK: Yes, and it will -- our transmission  
19 system will interface -- as we envision it today, would  
20 interface the switching facilities currently provided by the  
21 telephone-serving utilities. So really, access to the system  
22 will not be any different than you experience today.

23 SENATOR ELLIS: Okay. You're talking about a microwave  
24 system, is that what you are talking about?

25 MR. FRALICK: Yes, an existing microwave system.

26 SENATOR ELLIS: That's 40 percent utilized. What I  
27 am trying to get at, 100 percent utilization would be more cost  
28 effective, would it not?



1 MR. FRALICK: Yes, sir.

2 SENATOR ELLIS: What I am trying to get to is how  
3 does one get into the system in order to make it 100 percent  
4 utilized, or how do you go about getting it 100 percent  
5 utilized?

6 MR. FRALICK: By integrating it with the existing  
7 system, telephone existing system that exists today.

8 SENATOR ELLIS: Well, doing away with part of the  
9 system?

10 MR. FRALICK: Yes.

11 SENATOR ELLIS: Substituting, is that what you're  
12 saying?

13 MR. FRALICK: Substituting those circuits that we are  
14 currently leasing from Pacific Telephone Company.

15 We, in anticipation of rate increases for -- and I  
16 mentioned TELPAX being phased out, and potential for rate  
17 increases for private line service, which is a fallback  
18 alternative, our calculations or computations identify that  
19 if that private line rate increase occurs, our investment  
20 would be returned for microwave in less than three years.

21 CHAIRMAN DILLS: Senator Carpenter?

22 SENATOR CARPENTER: I confess I am a little surprised  
23 to hear you talk about fiber optics as a new system, because  
24 I think it was 17 years ago that I first had a chance to use  
25 that kind of a system. But I guess new technology means  
26 different things, has different time frames in different places.

27 The use of a fiber optics system would also qualify  
28 as a hardened system. And as such is there a chance that there

1 might be Federal financial support for such a fiber optics  
2 system? Have you explored that?

3 MR. FRALICK: We have not explored it, Senator. We  
4 do know that the State of Kansas is actively pursuing a fiber  
5 optics State-owned network to serve State government. And their  
6 proposal is to bury the optic fibers along the right-of-ways of  
7 the Federal highway system. And it's a very ambitious program,  
8 and they appear to be very serious in pursuing it.

9 SENATOR CARPENTER: The military is very concerned  
10 with the possibility of having a telecommunications system  
11 that would be survivable in the case of nuclear disaster. And  
12 my suspicion is that we might be able to get an extensive  
13 Federal financial support for such a system, and I would suggest  
14 that you consider that among the options and explore it.

15 MR. FRALICK: We will look into that, Senator.

16 MR. CAMACHO: Mr. Chairman, we will result, then, with  
17 this inventory (sic), is we will have documented for the first  
18 time all of the so-called imbedded equipment that is used in  
19 State services today, and whether that migrates to the American  
20 Bell fully separate affiliates, or whether it remains with  
21 GT & T. It will be -- our position in General Services will  
22 be that nothing is sacred, it will be open to bid, the costs of  
23 each one of those items, whether it be CENTREX or a telephone  
24 installation will be documented, it will be public information.

25 And as you know today, the State of California has basically  
26 two methods of procuring equipment. One of them is governed  
27 by Government Code 14790. That requires that we award a  
28 procurement bid to the lowest bidder, given no other consideration

1 that is responsible there. Or 14816 provides us with the  
2 abilities in data processing equipment to consider other  
3 factors besides the acquisition cost.

4 We believe in General Services that when we flush  
5 out this information regarding the imbedded equipment, that  
6 we will need a combination of those two legislative processes.  
7 And we are in the process today of preparing that legislation.  
8 We would like to bring it to you at a future date.

9 CHAIRMAN DILLS: Senator Greene?

10 SENATOR GREENE: I have a question for Mr. Riegal.

11 CHAIRMAN DILLS: Yes, Senator?

12 SENATOR GREENE: Sir, you were outlining your approach  
13 for dealing with the ensuing years. And to what degree does  
14 greater utilization by various agencies of data systems, to  
15 what degree is that built into your future planning? For  
16 example, you know, I think of the Franchise Tax Board, I think  
17 of the Department of Transportation, I think of the Department  
18 of Justice, EDD, Department of Health Services. You know,  
19 these are ones that I am familiar with their current level.  
20 I do know that it is expanding, and it makes sense for it to  
21 expand.

22 To what degree is that built into your future planning  
23 which of course means that these agencies are really no  
24 different from anyone else out there in the world. Businesses  
25 are going to be expanded in that regard.

26 You say microwave. To what degree can you use  
27 microwave with data systems?

28 MR. RIEGAL: Only our microwave system is analoged.

1 The technology for data, particularly high-speed data is  
2 digital.

3 I mentioned we had a consultant retained. Part of  
4 the consultant's responsibility is to make an assessment of  
5 what the data requirements of all those agencies that you  
6 mentioned plus many more, what their requirements are and  
7 what they will be in the future.

8 SENATOR GREENE: Well, how are they going to be able  
9 to determine that to any real exacting level?

10 The reason I asked the question is we know that this  
11 is going to happen. Where you are going to be at what point  
12 we don't know. But the thing that ponders the question is that  
13 it appears you are telling us you are going to put great  
14 reliance on a very limited or limiting system when we know the  
15 new world is going to be an expanding one where all this is  
16 more integrated into one system. And then you are also telling  
17 us that this is going to be least expensive for us. Maybe it  
18 might be in maybe the first couple of years, but it has the  
19 need to catch up with the real world. We are going to have a  
20 future cause at that point in time, and we are going to have  
21 certainly a figure which is going to be greater than we could  
22 to purchase it today.

23 MR. RIEGAL: That's true, Senator, and of course  
24 a voice, combining voice and data on the digital network is  
25 in the future, no question about it. Shared.

26 SENATOR GREENE: How dependable is microwave?

27 MR. RIEGAL: Our experience, Senator, is that it's  
28 just as good as the service we are getting now. We have

1 capability of diversifying our roots. We have three groups from  
2 Sacramento to Los Angeles, And if we do proceed with this  
3 project that I identified, we won't put everything on the single  
4 rout. It will be diversified. So that we do have that kind of  
5 redundant capability.

6 SENATOR GREENE: Thank you.

7 CHAIRMAN DILLS: Any other questions?

8 Any additional information you desire to present at  
9 this time?

10 MR. CAMACHO: Only that I think that it should be a  
11 very -- it should be highlighted that the telecommunications  
12 investment of the State is in the expense section of the budget  
13 and doesn't normally come under review by the Legislature. And  
14 for the first time, now, with this inventory of imbedded  
15 equipment you will have the visibility to see where the State's  
16 putting its money so far as telephone expenses are concerned.  
17 And for the first time departments will be in a position to  
18 where they can weigh the advantage of a competitive market on  
19 those charges.

20 CHAIRMAN DILLS: Thank you. We do have, as I  
21 mentioned earlier, a very, very full calendar. And I'd like at  
22 this time to call upon Mr. Ted Buttner, President of the Compath  
23 Corporation who has a transportation problem and is requesting  
24 an opportunity to be heard before the lunch break.

25 MR. BUTTNER: Thank you very much, Senator Dills. It's  
26 a pleasure to be up here this morning.

27 My name is Ted Buttner, I am the Chairman and the  
28 Chief Executive of Compath. We are located in Oakland, California;

1 we have about 450 employees throughout the State. We have  
2 over the 12 years since I founded the company in 1970 installed  
3 about 3,000 telephone systems from very small key systems, which  
4 are the ones where each outside line terminates on a button  
5 that lights up a key telephone system. It's the small ones on  
6 up into PBX's. And they come in small, medium, and large  
7 sizes. That's when you have a consul out front with an operator,  
8 have a switching machine that handles the distribution of these  
9 trunk lines coming in from the outside network distributing the  
10 calls to the individual telephone station, PBX. So over our  
11 12 years we have put roughly 3,000 of these machines in.

12 I might just say about the industry that we are a  
13 part of, it consists of manufacturers, some very outstanding  
14 ones. Rolm Corporation, I think, will be speaking today.  
15 It's a U.S. firm. Another one in the United States is Rockwell,  
16 that we happen to represent, from Canada. There is the MYTELL  
17 Corporation and Northern Telcomp, which is like the -- in fact  
18 it is part of the Bell of Canada like Western Electric. So  
19 this independent segment, it's referred to as the interconnect  
20 industry because our terminal machines interconnect into  
21 these national networks, has grown to today, we handle in the  
22 private sector about 50 percent of all the new telephone  
23 terminal installations.

24 In terms of the installed base of telephone terminal  
25 machines, key systems and PBX's, roughly speaking today the  
26 Bell System retains about 60 percent of the installed base.  
27 This new interconnect industry that I represent today, about  
28 20 percent. And the independent telephone companies, the ones

1 that handle outside of Bell territory like Continental United,  
2 CP National, who is represented here today, about 20 percent.  
3 That's where the installed base is. It's projected over the  
4 next five years that due to the competitive factors, Bell's  
5 share of the installed base of PBX's and key systems will  
6 continue to erode down to about 50 percent. And the interconnect  
7 industry I represent will have about 50 percent. And the  
8 independent regulated telephone companies, about 20 percent.  
9 There's the way that the analysts project this to work out.

10 I think the State of California has a marvelous  
11 opportunity as a result of the onset of deregulation within  
12 the next 60 days, and divestment within about 14 months to  
13 take advantage of the technological and the cost saving  
14 alternatives that are available in the private market.

15 Now the large users that come next to the State in  
16 terms of their payments to the Bell System, the State because  
17 it's 85 million of that, probably 90 percent is paid to  
18 Pacific Telephone or to ATT. Roughly somewhere between 70 and  
19 80 million. Behind the State is the Bank of America with a  
20 bill of around 30 to 40 million. Other insurance companies and  
21 private institutions who are very busy right now gearing up  
22 their staff to handle these competitive alternatives. Because  
23 on balance while it may increase the administrative cost to  
24 properly handle the contracting procedures, offsetting against  
25 that the savings net net the savings far outweigh the additional  
26 administrative costs that the banks and insurance companies  
27 that we have dealt with have to look at 20 and 30 percent  
28 reductions in their toll and terminal rental costs. So that

1 there is very definitely an advantage, here, starting right  
2 away for the State to get busy through the staff groups in the  
3 Communications Division in procurement and in your line  
4 operations, the CHP, the Water Resources, Caltrans, for those  
5 parties to get together starting right at the very top of those  
6 groups. That the top management has to get attentative to what  
7 is involved, the magnatude of the unit, set up some sort of  
8 a steering committee with a task force below that, people that  
9 know the operations of the agencies and the staff go get the  
10 maximum advantage out of the opportunity that's presented today.

11 That is my mission, is to come up here. I have been  
12 a founding president of the California interconnect association  
13 which is a group of the independent distributor, contractor, and  
14 installer that are in this market in California. There are  
15 probably in the State of California over 200 independent  
16 entrepreneural-based people that are eager and available to  
17 providing service that have proven equipment that meets the FCC  
18 regulation requirements as far as the proper interfacing with  
19 the network today. And I think just using the normal contracting  
20 procedures that the State of California has had for construction,  
21 for other kinds of services, that you can define the proper  
22 specifications, the proper follow-up procedures to see that  
23 these contractors you select do the job, meet their warranty  
24 obligations, that there is a feedback from the user agency

25 that they are getting the satisfaction that was represented  
26 at the outset. And that you can save money and get the  
27 advantage of what's happened right out of our own California  
28 Silicon Valley. That is, we have developed right here in this



1 state through INTELL Corporation and others these basic  
2 microprocessors that allow you to get more features less  
3 expensively in less space with less power consumption. There  
4 is no reason why the State of California that gets a lot of  
5 tax money from Silicon Valley should not take more advantage  
6 of this microprocessor -- what's referred to as digital  
7 technology. You can get, for example, the optimization of your  
8 phone calls through computer based machines.

9           Rolm Corporation right here in California is one of  
10 the first entails for microprocessors for the telephone machine  
11 to allow you to get the least costly routing of calls from  
12 where you dial your call to where the destination is. Automatically  
13 right through the computer. Or if you go from your office down  
14 the hall you can program your phone so that your call will be  
15 forwarded to where you are. Save a lot of time.

16           Easier ways of confrencing calls or speed dial. That  
17 is, where you have calls you make a great deal of the time just  
18 to program your phone so that three digits will automatically  
19 dial you out to those regular places that you want to get to  
20 in a hurry. That cuts down the amount of your time and the  
21 system's time to handle the calls.

22           So the Bell System has done a great job. It's a  
23 great institution and the United States is fortunate to have  
24 a privately owned utility company that's developed the network  
25 and the terminal equipment. But now that there's basically  
26 universal service in this country, the time has arrived -- it's  
27 been explained in some detail before me -- that the non-national  
28 monopoly function that can be very adequately served by the

1 competitors that are right here in the United States and  
2 California can provide the terminal machines, whereas the  
3 natural monopoly would be more akin to the network functions of  
4 the Bell System. So what we are talking about today in terms  
5 of your getting a bill from a leasing company or paying on  
6 a purchase basis for your phones versus paying a rental rate  
7 for use of the total system is no different than what an  
8 awful lot of companies in California are doing today. That's  
9 not a big change, really, because over the last 12 years since  
10 the Carter Phone Decision, this is what's been going on. And  
11 it's allowed an opportunity for business innovation to occur  
12 from the standpoint of who's doing the work. Our own firm  
13 hires the same people as the phone company, the Communication  
14 Workers of America. So there is an opportunity to keep the  
15 business in California, not pay part of it to ATT in  
16 Holmdale (sic) New Jersey.

17 I think further that the rates need not go up  
18 precipitously. That is not the function of the divestment  
19 regulation. What it represents in the major part is the fact  
20 that because there has been a monopoly up to now, the phone  
21 companies have not been charging the full cost of telephone  
22 equipment. In other words, they have assumed a 12 or 15-year  
23 life for this equipment that we have had on our desks all these  
24 years. Where based on what I have said about microprocessor  
25 technology, they should have been using a seven-year life. So  
26 you see a lot of these rate increases coming up that have to  
27 do with getting back to a more realistic depreciation rate  
28 for the equipment.

1 But beyond those adjustments, I think that this  
2 divestment order will mean that overhead payments, they are  
3 allowed contract license fees that have been assessed across  
4 the whole rate base of California, the little ladies in  
5 tennis shoes, the small business people, the big business people  
6 have been paying a fee through Pacific Tel to ATT for a lot  
7 of research and development that have resulted, hopefully, that  
8 the Bell System would come up with the new machines in the  
9 business segment that would compete with our independent  
10 segment. Well, that falls out with divestments. There still  
11 will have to be some R & D work done on Pacific Tel, but not  
12 on the scale and dollars of the contract license fee.

13 Also, the capital investment in terminal equipment,  
14 the interservice Charges applicable to Pacific's going out  
15 and buying equipment that could be just as well provided through  
16 competition will drop out. The phone company will have lower  
17 overhead, fewer sales people. The structure of the company  
18 can be reduced, and I think there ought to be a pressure by  
19 the PUC to not allow rate increases to maintain a hierarchy that  
20 is not applicable to the new age of competition.

21 That basically is my message, and I'd be happy to  
22 answer questions or make a few more comments.

23 CHAIRMAN DILLS: Senator Greene?

24 SENATOR GREENE: I have just one question, sir.

25 Do you have any knowledge as to whether or not the  
26 State agencies and their directors and their people are going  
27 through the type of preparation that you have outlined? For  
28 example, have any of them been in touch with your firm or what

1 have you to seek your advise or ask you what conceivable would  
2 be available from you?

3 MR. BUTTNER: Senator, the answer is yes. There have  
4 been conversations going on for about a year and a quarter  
5 relative to this master lease agreement which was an endeavor  
6 to set up sort of what I would call generic categories of types  
7 of phone systems by the key telephone system, small, medium,  
8 and large PBX's. So there has been a lot of conversation, and  
9 I think greater clarification and understanding coming about.  
10 I think more could be done to use the advise and consultation  
11 from the private sector.

12 There is a lot of us who are willing to come up here  
13 and talk about it around the table as to how the opportunities  
14 can be best pursued. But the answer is yes, and our hope is  
15 as the result of some of these efforts that have been going  
16 forward over the last year that on a broad scale the State can  
17 start taking advantage of the competitive opportunities of the  
18 alternatives.

19 You have 9400 systems. My view would be that one  
20 great goal of your committee would be to set an objective that --  
21 looking at it, let's say, on a five-year scale one-fifth each  
22 year of these systems gets changed out and put under a  
23 competitive discipline as to who can provide the best service,  
24 the best hardware, software, and the best process for let's say  
25 roughly 1800 a year. Over five years that would be the entire  
26 spectrum of your universe to competitive and technological  
27 scrutiny.

28 I think that would be a contribution that would help

1 both your line agencies and your staff communications procurements  
2 group meet their purposes.

3 SENATOR CARPENTER: Mr. Chairman?

4 CHAIRMAN DILLS: Senator Carpenter?

5 SENATOR CARPENTER: I'm not sure that your corner  
6 of the world of technology is the appropriate one to deal with  
7 this issue, but last August was an article in Science about how  
8 the Soviets are tapping the microwave transmissions for  
9 telephones on the east coast, and with computer technology and  
10 literally isolate numbers.

11 Now what are you going to do to give us secure  
12 phone lines?

13 MR. BUTTLER: Well, this is a problem of ATT. As  
14 you probably read, right here in San Francisco they suspect  
15 that on top of the Russian Consulate on Green Street they  
16 can see Pacific's facility in Oakland. And there needs to be  
17 cryptographic procedures for defeating their ability to  
18 intercept. In other words, you can't run in the clear where  
19 you know that that type of activity is going on.

20 SENATOR CARPENTER: The technology that the Soviets  
21 have been using is a fairly simple state-of-the-art technology  
22 that could be adapted by anybody. You know, by people who are  
23 trying to bid for California contracts; for example, by the  
24 Republicans or by the Democrats. And I think that we do need  
25 to be able to maintain privacy in the course of telephone  
26 communications.

27 MR. BUTTNER: Yes, yes.

28 SENATOR CARPENTER: And it's clear that the technology

1 has advanced on eavesdropping way past the technology towards  
2 protection of that privacy.

3 MR. BUTTNER: Yes. Well, I would say that there are  
4 two business areas that the ATT and PTT companies are  
5 challenged, here, over the next two or three years while this  
6 process of deregulation and divestment goes forward. The first  
7 is that within the State of California there has to be a  
8 division or a setting up of boundary lines between what Pacific  
9 Telephone will handle in the way of local exchange and what  
10 will be done by ATT along lines and their competitors, the likes  
11 of MCI, Southern Pacific, between these local exchanges.

12 So what is going on is a rather massive effort today  
13 by the Pacific Telephone people to analyze what are proper  
14 boundaries considering the competitive factors, considering  
15 how you can best separate out the long lines from the local  
16 exchange facilities.

17 Roughly speaking, at every major exchange a third  
18 of that facility is going to be pulled apart both financially  
19 and technically to be the ATT parent company asset and operating  
20 responsibility. The other two-thirds is going to remain with  
21 Pacific Telephone.

22 My view is that's where the main focus -- one of the  
23 main focuses has to be for Pacific. Right now is to make  
24 these organizational and functional changes to effectuate this  
25 divestment. It's a massive undertaking to make sure we don't  
26 have disruption of service that we can modernize these facilities.  
27 It's what's called local access in transport areas. They are  
28 like a large statistical metropolitan area, the one in San

1 Francisco, one in Chico, Sacramento, Stockton, and Fresno. Six  
2 of them here in the north; three in the L.A.-Orange County-San  
3 Diego portion of Southern California.

4 My point is that instead of looking for the phone  
5 company as a real viable competitor on the terminal equipment,  
6 the evidence so far is that they are not. They are losing  
7 market shares because they haven't paid attention to applying  
8 what they developed in their labs to the local consumer use.  
9 That is, the chip that was developed in Bell never got down to  
10 the users because this has been a monopoly. They haven't had an  
11 incentive. So they've got a long way to go with American Bell,  
12 Inc., to get what we call digital PBX machines that will compete  
13 with what the Rolms, Northern Telcoms, Rockwells, and MYTELL's  
14 of the world have out on the market and are being considered  
15 by other public and private people today. Just our own  
16 experiences that in addition to handling retail chains,  
17 hospitals, hotels and so forth, we have been doing work for the  
18 U.S. General Services, GSA, General Services Administration for  
19 a number of cities and counties around the State, and for the  
20 U.S. Coast Guard. So it's not just been the private sector  
21 that's been involved, it's been as I say, other public agencies  
22 that have been taking advantage of this.

23 I had one other thing I was going to say. That is that  
24 the facts are today that Pacific Telephone is stretched and  
25 strained just to meet their basic public service. That is,  
26 providing the trunk line facilities to people that need them.  
27 And their own statistics there, earlier standards of  
28 performance for held organizations and cut dates has deteriorated.

1 And the PUC staff has observed this, that the basic facilities  
2 of the local exchange, what we call the local loop, typically  
3 the copper pair that drops off the phone line or phone pole  
4 or comes in underground to your home, that local area is under  
5 great stress today. So that's where Pacific has to put their  
6 investment, and it's where they will meet their profit and  
7 meet their public obligation. It's not in this area that I say  
8 is not a natural monopoly function. It's a terminal maintenance,  
9 it's just like what happened oh, what, 35 years ago with the  
10 electrical utilities. They got out of selling people's stoves,  
11 refrigerators and light bulbs because they realized there were  
12 more efficient ways for that equipment to be distributed. And  
13 they didn't need to provide that -- what they had to do was  
14 wield the power and distribute it through their facilities and  
15 put their investment into that.

16 The same thing is happening appropriately for the  
17 phone company. The phone company really wanted in many ways  
18 this divestment to happen, because they want to get in and  
19 compete with IBM. They want to be in the data processing  
20 world. So they are trading off what you might say are some  
21 lost opportunities in this phone terminal business. There are  
22 even vaster opportunities in the general information field. But  
23 they are running into some big problems today because they have  
24 underpriced a lot of this terminal equipment. They haven't  
25 gotten the depreciation reserves up. This presents a big  
26 problem in transferring this imbedded base of equipment over  
27 to ATT, because a lot of it has got a book value that's unrealistic  
28 to its real value. And if it doesn't go out of this unrealistic



1 book value, I wouldn't think ATT parent would want to buy AT.  
2 It goes out at a lower price and it leaves the local operating  
3 company with an unamortized base that is going to have to be  
4 swallowed by the local ratepayer. So that's why we are seeing  
5 a portion of these rate increases coming up, is to adjust for  
6 these past practices of non-compensatory pricing in the  
7 terminal area.

8           They have tried to offset it by higher than normal  
9 prices in long distant tolls between L.A. and San Francisco.  
10 You pay twice what you pay if you dial L.A. to Las Vegas or  
11 San Francisco to Portland. The interstate rates are roughly  
12 half of what the intrastate, because of this sort of arbitrary  
13 allocation that's going on under the monopoly. So I think it's  
14 really healthy and welcome for both the users and for the  
15 utility company to recognize some of these situations and  
16 make the appropriate changes in practice. And I welcome what  
17 the State is endeavoring to do here as far as taking advantage  
18 of it for your own operations and efficiency and your own --  
19 for the bill that's involved.

20           CHAIRMAN DILLS: Senator Seymour?

21           SENATOR SEYMOUR: Thank you, Mr. Chairman.

22           Mr. Buttner, you indicated that we have a great  
23 opportunity, and you indicated for technological advancement  
24 as well as cost savings, and you went on to say, I thought I  
25 understood that Bank of America, in making their transition,  
26 looking at Maybe 20 to 30 percent cost reduction.

27           Have you reviewed this document?

28           MR. BUTTNER: No, sir, I have not seen that document.

1           SENATOR SEYMOUR: I see. The implication had from  
2 Mr. Camacho and Mr. Riegal and Mr. Fralick was that well, we  
3 made -- the bottom line perception I had was well, we are going  
4 to get some improvement in equipment, meaning the technological  
5 side. But we are also going to get some improvement in size,  
6 price, meaning it's going up. Now how do you square that with  
7 your statement relative to the second largest telephone bill  
8 in the state, that of B of A going 20 to 30 percent savings?

9           MR. BUTTNER: What I meant to say was the Bank of  
10 America and/or the major users is they are positioning themselves  
11 to effectuate the savings. They have built their staffs up  
12 with more people to understand and cope with the change. They  
13 haven't realized much of that savings themselves, yet, but  
14 over the experience of 12 years in the business I can say that  
15 typically the hospitals and hotels that do take action do  
16 realize savings in that magnitude, or more.

17           SENATOR SEYMOUR: Would you hazzard a guess, Mr. Buttner,  
18 or your own professional appraisal of if we are the committee  
19 that's sort of oversight on this transition, what would be a  
20 re-cost-wise? Would you care to hazzard a guess what would be  
21 a reasonable goal for us to achieve relative to reduction in  
22 cost? Would you hazzard a guess on that?

23           MR. BUTTNER: Well, we'd have to take a look at how  
24 that 85 million breaks down, as to how much it would be, for  
25 example, the telephone terminal equipment. But let's say if  
26 it was 30 million of it, which is the part I am particularly  
27 familiar with, I would think that the gross savings could be  
28 in the area of at least -- well, between five and \$10 million.

1 And there would be some cost of additional administration for  
2 the contracting procedures for dealing with multiple vendor  
3 sources to make sure you are getting the proper control and  
4 performance. But I would say it ought to be in the area of say,  
5 a \$30 million number of the 20 to 30 percent; i.e., between  
6 five and \$10 million.

7 SENATOR SEYMOUR: Okay, between five and \$10 million.  
8 So that's somewhere between seven or eight to 11 percent savings  
9 overall?

10 MR. BUTTNER: At that point of looking at terminal  
11 equipment. And I am referring primarily to your key systems  
12 and PBX's.

13 Now the CENTREX system, which is as stated,  
14 comprising 110 machines, is probably a huge opportunity for  
15 savings. The competition of the people -- some of those firms  
16 I mentioned are eager to compete for those larger network  
17 applications. They are more complicated, but they are a part  
18 of what's being done today as a part of normal business.

19 Just to give you an idea, the older equipment used  
20 by the Wells Fargo Bank, when they have wanted to call from  
21 Watsonville to Salinas, the way their machinery works today,  
22 with their CENTREX-type equipment is that the call goes all  
23 the way up to San Francisco, gets switched back to the other  
24 town that's only a matter of miles away. This is the type of  
25 revamp of the network facility that the competitors are eager  
26 to address themselves to.

27 SENATOR SEYMOUR: Mr. Buttner, you indicated, are you  
28 the current president of Interconnect?

1 MR. BUTTNER: No, sir, I was the founding president.  
2 I was president for five years. I am a director of the  
3 North American Telephone Association, which is our national  
4 association, and I was a founding director of that group. I  
5 am a former director of the American Electronics Association.

6 SENATOR SEYMOUR: I personally would appreciate as  
7 one individual of this committee, some appraisal of this  
8 document by your professional association. And if you can't  
9 respond in that appraisal as to what would be a reasonable  
10 goal for us to try to achieve as we go through this transition  
11 relative to cost savings, what might be reasonable? Because  
12 we -- at least in my opinion we on this committee are going  
13 to have to deal in generalities and leave it to our staff to  
14 work out the technicalities. But I'd like to be thinking up  
15 goals.

16 The other point I would make is -- perhaps you can't  
17 answer this question, now -- but how do we ensure as we  
18 go through this change that -- and it relates to cost savings  
19 again -- that we don't end up due to technological change  
20 with a -- if I could use the simile, a Cadillac of technological  
21 change costing us the same or more than we have paid in the  
22 past, as compared to what I would perceive our needs to be in  
23 the general way of Ford of Chevy. Because I know that happens  
24 as you go through these technological changes.

25 How do you protect against that?

26 MR. BUTTNER: Well, that is part of the competitive  
27 world. Those manufacturers that have not addressed what you  
28 just said, that is providing basic modules, basic hardware

1 that can be simple, basic, what we say POTS, plain old telephone  
2 service at one level of rising and features, and have the  
3 basic hardware and architecture of that machinery adapt with  
4 what we call software enhancements to give you more sophisticated  
5 "Cadillac"-type features.

6 The competitive world is addressing that. And the  
7 people that are getting the business awards today are those that  
8 have the capability of modular add-on capabilities, both in terms  
9 of size of facilities as they increase and in terms of features.

10 SENATOR SEYMOUR: Well, you have indicated, Mr. Buttner,  
11 that it's a competitive system, and I can understand that. But  
12 you haven't given any recommendation as to how we as a  
13 committee can ensure that we achieve that objective.

14 MR. BUTTNER: Well, I think the way the specifications  
15 are drawn, you can do that.

16 SENATOR SEYMOUR: All right, fine.

17 My final question has to do with maintenance of  
18 equipment. I have heard both sides of the question. One  
19 side says in-house maintenance of the equipment is best, and  
20 the others would argue, as I call it, "outhouse," or outside  
21 the sphere of the company is more cost effective.

22 Do you have an opinion on that?

23 MR. BUTTNER: Well, I think it's a function of these  
24 kinds of considerations. With smaller agencies they may be  
25 better off to use an outside contractor, whereas a large  
26 agency like Caltrans or CHP with a number of sites may be  
27 more efficient to have people trained within the factories of  
28 the vendors that provide the equipment.

1           Actually, our practice is that for the first year we  
2 as a contractor-distributor warranty the equipment, and we take  
3 care of it --

4           SENATOR SEYMOUR: Yes, I understand.

5           Do you know specifically if B of A has their own in-house  
6 maintenance group?

7           MR. BUTTNER: No, I don't know.

8           SENATOR SEYMOUR: Thank you, Mr. Buttner. No further  
9 questions.

10          CHAIRMAN DILLS: All right. Are either Mr. Camacho,  
11 Mr. Riegal, and Mr. Fralick in the room?

12          All right. I didn't want to ask you anything, I just  
13 wanted to comment upon the fact that I didn't see you here. I  
14 thought there was something going on here that was quite  
15 interesting that some of you should have been listening to. You  
16 can read the transcript, I guess.

17          Mr. Miller, will you see to it that if Mr. Buttner  
18 is interested in pursuing to some extent the request made by  
19 Senator Seymour, we can make available to you this document?

20          SENATOR GREENE: Mr. Chairman, on that point?

21          CHAIRMAN DILLS: Is this outhouse, or in-house  
22 information?

23                   (Laughter)

24          SENATOR GREENE: I think Senator Seymour is at least  
25 one member of the Committee, I think his request is a very  
26 positive one, and it might be good if we broaden it to ask  
27 several or all of the private firms that come before us, if they  
28 would maybe give an appraisal. That way we'd get a mix, we could

1 find out whether they agree, whether they don't. And I think  
2 being lay persons in general in looking at this subject, maybe  
3 more succinctly define it down to levels in terms we could  
4 understand.

5 CHAIRMAN DILLS: Certainly a suggestion that we must  
6 pay attention to.

7 Thank you, Mr. Buttner.

8 MR. BUTTNER: Thank you, Senator.

9 CHAIRMAN DILLS: We very much appreciate your  
10 contribution today.

11 It's possible that we will not have an opportunity  
12 to hear both of the witnesses who were placed on the agenda  
13 before the lunch break. I do not know if the General Telephone  
14 Company representative believes that he can complete his -- or  
15 do you desire to proceed at this time?

16 MR. GARCIA: By 12:00 o'clock, sir, we'd like to try.

17 CHAIRMAN DILLS: All right.

18 SENATOR CARPENTER: Mr. Chairman, while he's coming  
19 up, I should just note for your interest that while campaigning  
20 in one of the more distant parts of the State this fall I found  
21 some very advanced technology where you ring the bell and then  
22 you pick up the receiver and say, "Hello, Central."

23 CHAIRMAN DILLS: "Are you there?"

24 MR. GARCIA: Mr. Chairman and members, I am Tom Garcia  
25 with General Telephone. I'd like to thank you for the opportunity  
26 to appear before this Committee.

27 With me is Mr. Gene Borghi, our Vice-President of  
28 Marketing in Santa Monica who will address the issue of

1 deregulation, its possible effects, and also other related  
2 issues.

3 Mr. Borghi?

4 MR. BORGHI: Thank you very much.

5 Mr. Chairman and members of the Committee, I'm Gene  
6 Borghi. I'm Vice-President of Marketing of General Telephone  
7 Company of California, and I would like to address some remarks  
8 that are more informal than the written remarks that we have  
9 presented to you. And I'd like to leverage from the statements  
10 that were made by Pacific Telephone Company representative and  
11 some remarks that were made by some of the other people  
12 appearing, as well.

13 General Telephone Company has a rather unique  
14 position, I think in California, and I think it would be in the  
15 best interest of the Committee to attempt to explain what  
16 those differences are.

17 I'd like to take you back first to computer inquiry  
18 Decision of the FCC in 1980. You will recall that at that time  
19 the Bell System operating telephone companies and GTE operating  
20 telephone companies were declared at that time to be dominant  
21 carriers. GTE went forward to the FCC with a petition of  
22 reconsideration to ask the FCC to reconsider that decision in  
23 view of the fact that General Telephone and Electronics  
24 Corporation, now called GTE, and its telephone operating entities  
25 could hardly be considered to be of equal size and dominance of  
26 the Bell System.

27 To give you an idea of what those size differences are,  
28 and I think it's kind of important just to get an idea of size



1 as it relates to Judge Greene's recent decision, and divestiture  
2 of the Bell System into seven Bell operating companies.

3 Each of the Bell operating telephone companies will be  
4 approximately the size of all GTE telephone operations. That  
5 gives you a fair idea of relative size. And General Telephone  
6 Company of California, the company that I represent, is roughly  
7 the same kind of proportional size to Pacific. We are slightly  
8 larger in proportion, because we do represent approximately 30  
9 percent of telephone operations total GTE.

10 CHAIRMAN DILLS: May I interrupt, because someone  
11 must use the telephone. Someone has sent a message asking a  
12 Mr. Les Wolfe, Northern Telecom.

13 Is he here?

14 MR. WOLF: Yes.

15 CHAIRMAN DILLS: Would you please call your office?  
16 Very important.

17 MR. BORGHI: Might be a big order.

18 I mentioned that the issue of the petition for  
19 reconsideration of the FCC, because the FCC did in fact honor  
20 that petition for reconsideration. And GTE was then declared  
21 to be non-dominant. That is an important issue to us, and it  
22 changes really the way in which we are approaching the deregulated  
23 marketplace and the business of the future, if you will. And  
24 I'd like to explain just those differences, if you would.

25 The difference is essentially with the declaration of  
26 non-dominance that are being considered to be non-dominant. It  
27 simply means that we can have, for example, facilities. We can  
28 enter the deregulated marketplace of terminal equipment and

1 enhanced services. We do not have to set up a separate  
2 subsidiary. We must account for all activities totally  
3 separately so that in no way does the basic ratepayer subsidize  
4 the deregulated business of the future. But it does allow a  
5 certain amount of sharing of facilities, it does amount to a  
6 sharing of information and some other freedoms that would not  
7 be allowed if you were declared to be totally dominant and had  
8 to set up a separate subsidiary, as is true of ATT. Which  
9 brings me to a description of the way in which we will be  
10 structured in our structure essentially at this point in history.

11 We are structured so that we are, if you will, the  
12 telephone company in terms of network and local exchange  
13 facilities. Much the same as was described of Pacific  
14 Telephone. We are much smaller, we have a much smaller area,  
15 we are for example, a little over 20 percent of Los Angeles  
16 County. That's where our major presence is. And we have a  
17 couple of operating areas in Northern California near the  
18 Los Gatos area and Reedley and Novato and a couple other  
19 places. And we are, if you will, we do provide a networking  
20 and the local exchange facilities there. But in addition to  
21 that we have set up a very separated division of the company  
22 that is, I think, best likened to an interconnect company.  
23 We are in the interconnecting business. We are in the business,  
24 terminal business, we have been through the 1982 year, and  
25 most people don't know that. But we are very deeply into that  
26 business and we are offering business terminals to the State  
27 and to other business entities, if you will, in a totally  
28 deregulated environment. That is, the equipment is for sale.

1 We also have leasing options that allow for release purchase  
2 options over three, five, or seven years, much the same as does  
3 any interconnect company.

4 As we look into the future, that separation of  
5 what we call business terminal sales and service, the division  
6 of General Telephone of California will become even more  
7 separated, and we will move into what will essentially be a  
8 separated business that we will -- will be just like an  
9 interconnect company and a telephone company. It will, however,  
10 be a locally-owned division of General Tel of California.

11 That, I think, just gives an idea of where we are  
12 different, I think, from either the Bell alternative or the  
13 alternative of an interconnect company. It gives us the  
14 additional advantage of many years of experience in the field  
15 when I add commercial and the opportunity to share in a great  
16 amount of experience and a few thousand PBX's and key systems.  
17 We bring to the market the latest in digital technology in  
18 our PBX line and in our key line, as well.

19 I would like to address another issue, however, if  
20 I might. Part of this material is in the written text, and  
21 I would like to read it, because I think it is something that  
22 we are very much interested in, and you are, as a Committee,  
23 is the whole issue of the procurement policies as they exist  
24 today.

25 If I might just read from the written text?

26 "Deregulation has brought a multitude  
27 of equipment suppliers into the telecommuni-  
28 cations marketplace. Their prices are set

1 by the competitive marketplace, not  
2 regulation. This competition is  
3 expected to allow the free market to  
4 determine what services should be  
5 delivered at what price.

6 "There is concern that this  
7 influence of competition may be viewed  
8 as an endorsement of all state-of-the-  
9 art technology offered by these suppliers.  
10 Managerial, technological, and financial  
11 resources necessary to support the  
12 ambitious activities of suppliers is of  
13 vital importance to the State's procure-  
14 ment processes.

15 "Identification and selection of  
16 fully qualified suppliers becomes a  
17 key factor in establishing sound pro-  
18 curement policies and procedures.

19 "Specific selection criteria items  
20 that should in our judgment be reviewed  
21 and qualify a potential supplier, should  
22 the previous track record within the  
23 industry" in quotes "submission of an  
24 audited financial statement, perhaps done  
25 in Broadstreet Review.

26 "Manufacturing support documentation,  
27 maintenance and service support, financial  
28 resources, equipment delivery reliability,

1 and Affirmative Action equal opportunity  
2 compliance record."

3 We experience at GTE a lot of procurement with the  
4 Federal Government as to a great number of error people. Now  
5 the Department of General Services, in our judgment, should  
6 look to some of those procurement policies that the Federal  
7 Government has. And we would suggest and in concurrence, really,  
8 with the gentleman that preceeded me, that we would be very  
9 willing to participate with members of the competitive  
10 environment, Pacific Telephone, and those people that you  
11 deem to be qualified, to come to Sacramento and do whatever  
12 we can to contribute to some -- our view at least, in terms of  
13 how those procurement policies might be streamlined and be in  
14 the best interest of State of California.

15 CHAIRMAN DILLS: We appreciate that offer, and hope  
16 to take advantage of that, also. Thank you.

17 Any questions of this witness?

18 Any additional information you desire to submit to us?

19 You complied with the time frame very well. Thank you  
20 very much for your participation.

21 Mr. Holmes, would it be -- J.B. Holmes, is he here?

22 Would it be convenient for you to come back after the  
23 lunch break? Or does that which you have to present require  
24 considerable amount of time?

25 MR. HOLMES: No, very little time, in fact.

26 CHAIRMAN DILLS: Very little time. Well, shall we  
27 hear the gentleman now and keep our agenda in line?

28 Vice-President, business communications systems

1 division, CP National Company.

2 MR. HOLMES: Senator, members of the Committee, I'd  
3 like to thank you for inviting me here to address the Committee.  
4 I think that with deregulation and the creating of deregulation  
5 that the -- everybody is looking for the adverse impact of what  
6 deregulation is going to do to the telecommunications industry,  
7 rather than looking at what cost savings innovative ideas are  
8 going to be presented in the future that have been stymied by  
9 the monopolistic view. So I think in looking at that we  
10 need to look at yes, in the early stages we depended on the  
11 telephone company to supply us with manpower for analyzation of  
12 the equipment needs and tell us what we need. And we acted on  
13 those recommendations. Today in the deregulation end of it, we  
14 are going to have to somewhat understand what goes to the black  
15 box, what the black box costs and where -- how long that  
16 black box will last and where it will take us in the future.  
17 And those are the requirements of individual companies, individual  
18 parties, consumers, and the State people, also the procurement  
19 practices.

20 I think as we get into this, you know, if you will,  
21 if you open the black box and look at it, it's not really as  
22 scary as it looks. It may be that we can save great deals of  
23 money by depending on our own innovative ideas to put systems  
24 together. And looking at different independent companies.

25 CP National is presently a telephone company operating  
26 within the rural California areas. In Colusa, Tuolumne, and  
27 Needles, California. We have very little business communications  
28 systems, but we do have a deregulated division which is in the

1 process -- in selling equipment. So I think in looking at all  
2 the aspects of the business, deregulation is something that  
3 almost had to take place because of the new technological  
4 developments that are available outside of the Bell System and  
5 the other telephone company areas. And that it's an exploding  
6 industry that will take advantage of these new technologies.

7 That's all I have.

8 SENATOR GREENE: Mr. Chairman, I have one question. I  
9 will make it brief, because I know we all want to eat, including  
10 me.

11 Sir, you raised the point that really got me turned  
12 onto communications workers when they started educating me. I  
13 think the question that is an appropriate one for the Legislature  
14 is to what degree right now is the State and our people who have  
15 responsibility for that, to what degree are they aware of what  
16 you say, and to what degree are they moving to that point? What  
17 is your observation, or do you have any attempt in that regard?  
18 It's looking to the positive, but an assessment of do we see  
19 what's coming about --

20 MR. HOLMES: Are you speaking of the telephone  
21 communications people, or the --

22 SENATOR GREENE: I'm speaking of our State people who  
23 have responsibilities for --

24 MR. HOLMES: I think that people that I have dealt  
25 with within the State have a very good knowledge of what's  
26 available and what's out there.

27 SENATOR GREENE: And are they moving towards?

28 MR. HOLMES: And yes, they are moving towards that.

1 But I think that it's going to be a slow movement, simply because  
2 of the imbedded equipment that's there, and what, you know, the  
3 procedures that have to be gone through to get from A to B, if  
4 you will. So in looking at it and analyzing it, yes, they  
5 have done a great deal in that area.

6 SENATOR GREENE: Thank you.

7 CHAIRMAN DILLS: Nothing additional, then, we will  
8 be in recess until the hour of 1:30.

9 SENATOR GREENE: Thank you.

10 (Thereupon a recess for lunch  
11 ensued at 12:00 noon.)  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24





A F T E R N O O N   S E S S I O N

---oOo---

CHAIRMAN DILLS: Number six on our agenda, Mr. Walter Lowenstern, Executive Vice-president, Rolm, California.

MR. ROBERTS: Senator Dills, I will introduce myself. My name is Larry Roberts, I am the Marketing Manager for the State Government, Rolm, California. To my left is Walter Lowenstern, who is the Executive Vice-president, Rolm Corporation, and one of the founders of Rolm Corporation.

CHAIRMAN DILLS: Thank you. Will you proceed, sir?

MR. LOWENSTERN: Thank you very much, Senator. I want to thank you very much for inviting me here today and allowing us to give you our views on this matter. We, of course, are very interested in it. I will keep my presentation very brief in the interest of time, and try not to cover some of the things that have already been covered today.

What I do plan to do is tell you a little bit about the Rolm Corporation so you know who we are and what questions might be appropriate to ask of us and what information we could give you, and then I would give you some of our suggestions of what the Committee specifically might do to answer this question that's been asked. So with your permission, I will proceed to do that.

First of all, as far as the Rolm Corporation, I am one of the founders of the Rolm Corporation. We started the company in 1969 and in -- our first product was a computer for the military. We built a militarized version of a commercial computer and found that to be a very successful

1 business, and are today one of the leading producers of military  
2 computers in this country.

3 In 1975, however, we decided to diversify our business  
4 and decided that we would build a very good PBX telephone system  
5 for businesses by using our computer expertise in the telephone  
6 system. And we proceeded to do that.

7 In 1975 we made that decision. We had a yearly annual  
8 sales of \$3 million. Today our company has annual sales of  
9 \$400 million. We have about 5,000 employees, about 4,000 of  
10 whom reside in the State of California. So we have created  
11 at least 4,000 new jobs over the past five or six years. Ninety  
12 percent of that business is in the BPX business.

13 We manufacture a computerized digital PBX, a unit that  
14 we believe to be the most advanced and most capable PBX on the  
15 market today. And the market -- and as sort of in confirmation  
16 of that, we have substantial acceptance in the marketplace and  
17 we have grown at rates of about 50 percent per year over the  
18 last five or six years. And we have over 10,000 installations  
19 of PBX equipment throughout the country, and actually throughout  
20 the world. And as a for instance, the City of Hong Kong has  
21 selected our PBX through an international bidding procedure,  
22 decided that our PBX was the best one to meet the City of  
23 Hong Kong's needs, which it turns out is quite a substantial  
24 need, and we ship about \$1 million a month of PBX's to Hong Kong.

25 We are very interested in the question of the State's  
26 needs. Of course, we would like very much to help the State in  
27 its need. We think you have a truly unique opportunity as has  
28 been said before, and there are substantial cost savings to be

1 had, and substantial efficiencies and operations to be had  
2 by going to modern equipment.

3 I will say just really one further thing before I  
4 give my recommendation to you, or offer my recommendation to you.  
5 I personally have done a lot of work with the Federal Government  
6 and in a very similar kind of problem. And in fact lived in  
7 Washington, D.C. for a few years. And at that time worked with  
8 GSA, the Federal Government GSA in an almost identical situation.  
9 Initially GSA for the Federal Government was given the  
10 assignment of solving a problem in the data processing area  
11 where they had one vendor -- basically one vendor who supplied  
12 all of the U.S. Government's needs. It was a good vendor, but  
13 it was clear that the U.S. Government's needs could be better  
14 served by having more than one vendor.

15 GSA was given that assignment, then proceeded to do a  
16 lot of competitive bidding, and consequently they now have a  
17 number of very fine vendors of data processing equipment to the  
18 Federal Government, and that single vendor is now below a  
19 50 percent supplier to the government.

20 A few years ago the telecommunications needs of the  
21 U.S. Government were looked at, and that also was being  
22 procured from a single vendor. And it was decided that perhaps  
23 GSA could help solve that problem. They were given the mandate  
24 to do so, and proceeded to do so, and are in the process of

25 doing that now and have procured a large number of PBX's and  
26 other terminal equipment through the competitive bidding process,  
27 and a number of which are of some assistance. So we are very  
28 pleased to help the U.S. Government in doing that. We believe

1 we helped them save quite a bit of money in the process.

2 I see a very similar situation here in California, and  
3 I believe that your GSA has in place the procedures for doing  
4 similar things. They have done it in the data processing area,  
5 and from what we know of it, they have done a very successful  
6 job in the data processing area of competitive procurements  
7 and meeting the best needs of the State. We believe they can  
8 do the same thing in the telecommunications area in cooperation  
9 with the various functional departments.

10 You know, sometimes the procurements actually occur  
11 in the functional departments and sometimes at GSA in the  
12 Federal Government structure. And I am sure a similar thing  
13 would happen in the State. But I believe that's up to them to  
14 figure out, and I think they have the capability of doing that  
15 and the tools to do that.

16 So my recommendation to you would be to give GSA and  
17 the functional departments of the State government the mandate  
18 and the power if it needs to be -- although my guess is they  
19 probably already have that power -- but at least give them the  
20 mandate to competitively procure all of their telecommunications  
21 equipment needs, and we would hope we would be in consideration  
22 for those, particularly since we are a California-based company  
23 and have a lot of jobs in this area. But on the other hand, I  
24 am sure that having won a number of competitive bids, we know  
25 how to do that and we are willing to compete with everyone else.  
26 And we think the result will be substantial cost savings to  
27 the State of California and to myself as a taxpayer in the State  
28 of California

1 And with that, I will end my formal presentation and  
2 be very happy to answer any questions you might have.

3 CHAIRMAN DILLS: Your company is based in?

4 MR. LOWENSTERN: In the Santa Clara Valley. Sometimes  
5 called the Silicon Valley. The City of Santa Clara is where  
6 we are based.

7 SENATOR GREENE: One question, Mr. Chairman.

8 CHAIRMAN DILLS: Senator Greene?

9 SENATOR GREENE: Mr. Lowenstern, I would not expect  
10 you to come forward and state that the General Services Department  
11 and others had not done a good job, but since you do say that  
12 you feel they have done such a fine job in the area of  
13 computerization and how they proceeded here. I for one, I  
14 chair one of the subcommittees of the Senate Finance Committee.  
15 I halted three of their operations because just from my  
16 examination and what have you, they are wasting money. I  
17 talked with some of the biggest computer people there, and  
18 what have you. We found so many loopholes in just that portion  
19 of the budget that I oversee for the Senate and what have you.  
20 For example, the SPAN program where they have wasted some  
21 \$49 million.

22 What is the basis for your saying that -- that's just  
23 one example I point out, and as I said, I would not expect you  
24 to voluntarily come forward and take them on, that is not your  
25 responsibility and I wouldn't expect it. But since you do say  
26 you feel they have done such a good job, what is the basis for  
27 that observation?

28 MR. LOWENSTERN: Okay, thank you. Senator, let me say

1 I am sure in all organizations there are problems, and I am sure  
2 GSA would have a similar problem. But my observation actually  
3 comes from my co-worker, here, and so what I will do is let him  
4 tell you his experiences --

5 SENATOR GREENE: I might add to that, Senator Alquist,  
6 who chairs our Senate Finance Committee is quite a critic of  
7 theirs in that regard. Senator Walter Stiern, who comes from  
8 the Bakersfield area who chairs our Joint Legislative Budget  
9 Committee is a daily critic of them in this regard and we, of  
10 course, are not expert at all. You are an expert, but why is it  
11 you get one picture and we get a totally opposite picture?

12 MR. LOWENSTERN: I think my picture is of the  
13 processes, rather than the actual result. But let me let  
14 Mr. Roberts address that.

15 Larry?

16 MR. ROBERTS: The last comment is exactly correct.  
17 Since we obviously are not in that marketplace environment it is  
18 one of observation of the process which appears to be a very  
19 solid competitive process in terms of least effective cost to  
20 the State of California, taking into considerations for  
21 productivity, systems design, systems cost, serviceability,  
22 reliability, things of this nature. They were, to a large  
23 degree, not addressed at least currently under the old MLA  
24 process. And I know this is not the forum to discuss that  
25 process, but the intent of that comment was to say that the  
26 State in many other areas, office automation, copiers, things  
27 of that nature, has developed an approach that it is a bid  
28 matrix-kind of approach that essentially looks at many factors

1   equivolent to a bottom line cost to the in-use department and  
2   all we are suggesting is that there is obviously some levels  
3   of expertise in the procurement department and the agencies  
4   that regulate them. And to tap that same -- give them the mandate  
5   to develop that same kind of charter with telecommunications  
6   so that it's a very broad and a very effective selection process  
7   for the State

8               MR. LOWENSTERN: But not to make the same mistakes  
9   they have made already.

10              SENATOR GREENE: Well, I am not really being critical  
11   of them, but I am just trying to think my way through this. We  
12   are coming into another brand new world, and we have got some  
13   pretty glaring things they have done. Even when you sit down  
14   privately and talk with people who are knowledgeable in this  
15   area, they talk them out to where even a guy like myself can  
16   understand. And I finally -- maybe I'm naive, maybe I expect  
17   a higher level of selection out of people, but I frankly feel  
18   that in some of those instances I could have made some better  
19   judgments than what appears.

20              This State has lost an awful lot of money in the  
21   terms of the manner in which it's moved in data systems, and  
22   that can be established. That can be very clearly established.  
23   So now fine, maybe they have a process which calls for bidding  
24   and what have you like that, but the manner in which they

25   implement that process has not been anything that I think  
26   anyone should be proud of. It hasn't been the worst, maybe,  
27   but it certainly does not -- I doubt that you would run your  
28   corporation in the manner in which some of the agencies and



1 General Services have moved into the systems world. And I  
2 doubt very seriously if your volume business and your earnings  
3 would have increased at the rate that they have, given those  
4 figures you have given us if you handled your business in the  
5 manner in which some of these agencies have.

6 MR. LOWENSTERN: Well, I have to apologize to you  
7 for not being familiar with those specific cases.

8 SENATOR GREENE: Well, I wouldn't have raised it if  
9 you hadn't raised it.

10 MR. LOWENSTERN: And I sort of opened a bag of worms  
11 by doing that. But it was not my intent. My intent was to  
12 say rather than having sole-source procurements, we have seen  
13 it work, and I know there have been a lot of procurements in  
14 the State of California that have gone well. And so the  
15 procedures, I believe, are available and in place, and the  
16 smart thing to do is to apply what has worked in the past, it  
17 seems to me, and not apply what has not worked in the past.

18 SENATOR GREENE: Thank you, I understand.

19 CHAIRMAN DILLS: Senator Ellis?

20 SENATOR ELLIS: You passed over the Master Lease  
21 Agreement. I am assuming that when you say you are in favor  
22 of the competitive bid process, you are not in favor of the  
23 master lease agreements process; is that correct?

24 MR. LOWENSTERN: Well, since we have a master lease  
25 agreement I guess I would be foolish to say I am not in favor  
26 of it.

27 SENATOR ELLIS: Well, you have one now, but you're not  
28 going to have anymore.

1 MR. LOWENSTERN: Well, they have all been cancelled, yes.  
2 So were we to have one, I guess that would be all right. We'll  
3 have no problem with that. You know, we'd be happy to serve you.

4 SENATOR ELLIS: No, but seriously. Does GSA have  
5 master lease agreements?

6 MR. LOWENSTERN: In the telephone equipment area, not  
7 anymore. I think they cancelled them all.

8 SENATOR ELLIS: So when you are talking about  
9 competitive bids, you are referring to the --

10 MR. LOWENSTERN: Well, you've got to do something, now.  
11 And the question is, should you reinstate the Master Lease  
12 Agreements, or should you do a specification which has to do  
13 with the user's needs? It seems to us the latter process is the  
14 better process long term. When we are only one of five Master  
15 Lease Agreements, that's fine. I mean, that puts our company  
16 at a somewhat competitive advantage over others. So if I were  
17 the sole source supplier, I would be very happy to do that for  
18 the State of California, but I don't think that's realistic  
19 or in the best interests of the State.

20 SENATOR ELLIS: I don't think you have been following  
21 the proceedings of the other subcommittee we have, have you?

22 MR. LOWENSTERN: No, sir, I haven't.

23 SENATOR GREENE: On that point, may I, Mr. Chairman?

24 CHAIRMAN DILLS: Yes, sir.

25 SENATOR GREENE: On that point, and I am not trying  
26 to box you in, sir, but Senator Ellis and I have listened to  
27 that same testimony. And it appears that all the members of  
28 that committee are getting somewhat the same impression. That

1 process also locks people in and locks out further competition,  
2 does it not, also? Or is it not so that that could in fact  
3 happen? The Master Lease Agreement?

4 MR. LOWENSTERN: Yeah, I think it does.

5 SENATOR GREENE: So that would really argue -- now fine,  
6 if you are one of the companies that's locked in. And I have  
7 no problem with that. I can very well understand that. And if  
8 I were up there in that world, I would be for it, too. I don't  
9 mean it as a criticism, but I mean just from an analytical  
10 point of view it was just designed to make certain that the  
11 people who could deliver what we need and who could perform in  
12 the manner that we need to make certain that those were the  
13 people that the agencies had to go to, and we had some reliability  
14 and what have you. The goals were noble. However, it appears  
15 that the manner in which it's functioned has been one that  
16 locks certain people in, and other people were just as capable  
17 and in many cases more capable, locked them out. So that's a  
18 double-edged sword, it's a catch 22.

19 MR. LOWENSTERN: I think the MLA does have some  
20 advantage, but in systems like communications where things  
21 are fairly complex and each situation is quite different, it's  
22 a little different than buying more standard items like pencils  
23 and paper and things like that where MLA's make sense. If the  
24 State decides they want to do MLA's, fine. We'd be very happy  
25 to participate in that process. And I believe we would be --  
26 since we are one of the largest manufacturers of this kind of  
27 equipment in the world, I think we would be certainly considered  
28 a reliable vendor. But I do think we have seen competitive bid

1 processes work quite well at the Federal level in particular,  
2 and at other levels. And we just think it probably makes more  
3 sense for this new high technology-kind of thing to really take  
4 advantage of this very fast moving marketplace.

5 CHAIRMAN DILLS: Any other questions? Any other  
6 comments?

7 Thank you very much for your testimony. It's been  
8 very helpful.

9 MR. LOWENSTERN: You're welcome.

10 CHAIRMAN DILLS: Former State Telecommunications  
11 Officer Henry L. Crutcher, Department of Parks and Recreation.

12 MR. CRUTCHER: Honorable Chairman, members of the  
13 Committee, I think maybe I am here this afternoon to expand  
14 a little bit on the previous gentleman, and also to look at  
15 some of the things that were said this morning. But more or less  
16 I guess you could say that I am sort of from the user's side.  
17 I am just recently retired from the State service as of  
18 September the 1st, and I think many of us, my counterparts and  
19 people who are left there have been looking at this deregulation,  
20 have been looking at the operation of the Communications Division  
21 for several years. And I would like to preface my remarks  
22 to say that I think anything that might be negative would be  
23 said toward the statement not so much -- or more so than it is  
24 toward an individual. Isn't good to get into personalities, and  
25 I don't think they have any place here.

26 I heard one remark this morning made that we might --  
27 where we are very seriously considering -- "we," being the State  
28 -- of putting part of our communications effort on a State

1 microwave system. I think that if this were looked into very  
2 closely it would be discovered very quickly that that would not  
3 be a very good, viable alternative. In the first place the  
4 State microwave system was never designed for a telephone system.  
5 There's no way that you can load the State microwave system with  
6 any appreciable information for the State telephone requirements  
7 and have it do anything but cause something short of a disaster.  
8 The system wasn't designed for it in the first place, and it  
9 no way could be made to work that way in its present configuration,  
10 and that's just one of the areas.

11 I was very surprised, and pleasantly so, to hear  
12 Senator Carpenter say that fiber optics wasn't anything very  
13 new. It's 17 years old.

14 I heard many things said about what's going to be  
15 done, what we are looking at. We are going to examine this,  
16 we are going to peruse that. But gentlemen, we are only about  
17 three months away from when this has to start. And it should  
18 have been done by now. The telephone side of the House of  
19 General Services and Communications Division is only part of  
20 the picture. There's another picture called the public safety  
21 radio, which to the user is every bit as important to the  
22 person that needs it as is the deregulated phone side. As a  
23 matter of fact, there was some deregulation done in the radio  
24 side way back in 1955 by the phone company. They were directed  
25 to get out of the business, which in effect they have sort of  
26 been done this time as the phone goes. But I think we have a  
27 problem right now of logistics or accountability or whatever you  
28 want to call it. And it is very difficult to get anything done

1 in a timely manner regardless of what the cost is. I think  
2 when you heard someone say this morning that the training  
3 function, the technical function, the administrative functions  
4 the Communications Division was going to have to assume because  
5 of this deregulation would require additional staff.

6 So far during the past ten years all I can say is  
7 every time we have consolidated something to save money it  
8 costs us more money. And Senator Greene, you are absolutely  
9 right. There's been millions wasted, particularly in the radio  
10 side. And it has to be applied clear across the board if we  
11 are going to look at it that way.

12 One of the plain communications technicians for  
13 radio, and we are going to be talking about that for telephones,  
14 too, because the State is large enough they could sustain their  
15 own technical or repair force. But when the State radio  
16 technician costs the user nearly \$100,000 a year, it's a little  
17 bit ridiculous. And I think some of the process that goes into  
18 the Communications Division's operation should be very seriously  
19 looked at. And I think the Senator said earlier, too, that  
20 somebody wouldn't run their business the way the State has. Well,  
21 I'll tell you if you had a business and had to run it the way  
22 the State is running it now, you wouldn't make the first payroll.  
23 I think the ability to get something engineered, something to  
24 get it through the whole bureaucracy of the Communications  
25 Division, Department of General Services has almost gone from  
26 the sublime to the ridiculous. I have personal knowledge of  
27 things that have lasted a year, and two years before you could  
28 ever get them off the drawing board. And when they did --

1 CHAIRMAN DILLS: I just wonder when it was sublime.

2 MR. CRUTCHER: It had to be sublime before I came here,  
3 Senator.

4 CHAIRMAN DILLS: I've been around here 25 years.  
5 Sublime would be wonderful.

6 MR. CRUTCHER: I'd have to assume it was sublime  
7 prior to my coming to work for the State, because it's been  
8 rather ridiculous for many years.

9 I am an ex-communications director for a county for  
10 several years. I've been in business for myself, I have a  
11 pretty good cross sectional knowledge of what should be done  
12 to make a communications system operate from a management  
13 standpoint, from a technical and engineering standpoint.

14 Again I say, I wouldn't point the finger at any one  
15 individual, I think I look more at the system and I think the  
16 Legislature has done its best in trying to make sure everything  
17 is done properly. But somewhere I don't think that they have  
18 looked quite far enough. Because there has to be a better way  
19 to do things than the way they are being done, now. When we  
20 start looking at the microwave system that is supposedly 40  
21 percent loaded, when I would certainly doubt if it's ten percent  
22 loaded, most of the paths in there have less than 40 or 50  
23 channels on them that could conceivably carry 120 channels. The  
24 microwave system was designed originally to be a radio control  
25 system for remote control base stations in the mobile radio  
26 business. To even suppose that you wanted to use it for  
27 telephone is absolutely ridiculous.

28 There was a test run at one time, and it was told to

1 us it was about 99.5 percent reliable. That's not good enough.  
2 It's got to be at least 99.9 percent if you are going to use it  
3 for telephones. And the difference between those two is  
4 logarithmic. And without getting anymore technical than that,  
5 I think most of you know what I am talking about, here.

6 As I say, the ability to get communications services  
7 performed at any price is very difficult. The needs of the  
8 agencies are not being met under the present way it's done.  
9 I think I hear here that we should go low bid, regardless of  
10 what it is, as long as it's compliant. Well, gentlemen, you  
11 can make anything compliant if you write the specifications such  
12 that they are low enough that anybody can bid on it. I think  
13 the State of California should have a communications operation  
14 that should be the epitome of all communications operations  
15 in the world, actually. Because it certainly has that status.  
16 It's not. It doesn't even approach it. I think there has to  
17 be accountability by the Communications Division to the agencies  
18 which it serves. The agencies shouldn't be here to serve the  
19 Communications Division. You don't have communications systems  
20 for an engineer to design, or for a technician to fix. You  
21 have communications systems so the people that need to  
22 communicate can communicate. And in many cases right now  
23 people can't communicate out there. I had park rangers that  
24 couldn't talk to a guy four miles away because the unit was  
25 down. And it would be down sometimes for a week. That's not  
26 good.

27 I know this has deviated somewhat from the regulatory  
28 standpoint, but I think you should know that when you have these



1 kind of problems, if you go out here and start hiring more  
2 staff to absorb some of the stuff from the deregulation side,  
3 you're only going to make the problems worse. It has to be  
4 shaped up and it has to be made more official. I think you  
5 should take a good look at the organization.

6           You know, gentlemen, there's a point which an  
7 organization who needs service, who needs services such as  
8 communications is too small to have their own force to do it.  
9 Conversely, there's a point at which you are too big to be  
10 able to handle it. And I think there probably is a much more  
11 efficient way to handle the communications operations for  
12 the State agencies by segmenting it into certain predetermined  
13 classifications and getting it out from one agency which is  
14 really a monster to handle. And here again, I am not sure  
15 it can be handled properly under one agency, but it surely can  
16 be broken up and handled properly.

17           I think with those remarks I would defer to any  
18 questions you may have.

19           CHAIRMAN DILLS: Thank you. Any questions of the  
20 witness?

21           SENATOR ELLIS: Well, I have just --

22           CHAIRMAN DILLS: Senator Ellis?

23           SENATOR ELLIS: Well, the statement that the park  
24 rangers' radio broke down and took a week to fix. What is the  
25 procedure for getting it fixed, and what procedure would you  
26 suggest to correct that? And I'm assuming when you use that as  
27 an example it's merely an example of a broader problem.

28           MR. CRUTCHER: I only used it as an example, Senator.

1 To go a step further with that I could tell you that we would  
2 get engineered and installation and sometimes it was a year  
3 before it would get in when we'd have parks that couldn't talk  
4 to one another when they needed. That's unconscionable to  
5 take a year from the time the order is written to get it done  
6 and having it done. Or six months is common. It's not at  
7 all uncommon.

8 At one time I have had as many as 100 work orders  
9 out there that were more than four months old.

10 SENATOR ELLIS: But whose fault was that that it was  
11 such a delay?

12 MR. CRUTCHER: Communications Division, yes. General  
13 Services.

14 SENATOR ELLIS: But do they not have contracts for  
15 maintenance with various private companies to do these things?

16 MR. CRUTCHER: To my knowledge only one or two are  
17 private companies, the rest of it's all in-house.

18 SENATOR ELLIS: Would you foresee any advantage to  
19 expanding the contract concept and --

20 MR. CRUTCHER: Absolutely.

21 SENATOR ELLIS: -- and requiring response criteria  
22 for them?

23 MR. CRUTCHER: Absolutely, I would. I should think  
24 that if you have a situation where a piece of equipment is  
25 down, it needs to be fixed -- I didn't mean to get down into this  
26 particular nitty-gritty -- but if for any reason Com Dept could  
27 not respond, and that's understandable, there should be some  
28 other option that can be approached, and it can't be done. By

1 the time you get through it it's three weeks later.

2 SENATOR ELLIS: Okay.

3 CHAIRMAN DILLS: Any other questions?

4 Senator Seymour?

5 SENATOR SEYMOUR: Thank you, Mr. Chairman.

6 Am I misreading you in believing that what you're  
7 suggesting is a decentralized operation, rather than a  
8 centralized structure?

9 MR. CRUTCHER: Partially, yes, sir.

10 SENATOR SEYMOUR: And what would be your criteria  
11 for those areas that you would consider to be decentralized  
12 in the different structures?

13 MR. CRUTCHER: In the agencies. I can give you an  
14 example if you like, sir.

15 SENATOR SEYMOUR: Please do.

16 MR. CRUTCHER: Such as the Department of Transportation.  
17 Conceivably Caltrans and CHP would have their own operations.  
18 It's very huge, and in fact that represents a good portion of  
19 the State system. I'm talking about radios at this time. RF  
20 communications.

21 Another agency would be resources such as Fish and  
22 Game, Parks and Recreation, Forrestry, and Water Resources. They  
23 would have their own. Now there may be one other, and then  
24 leave Communications Division to take care of the things that  
25 are totally common to everybody.

26 Yes, this would be very good, I think, insofar as  
27 the telephones go, that would have to be looked in very seriously  
28 of seeing what centralization or what decentralization should

1 take place.

2           Someone may say this is going to be a duplication of  
3 services, but I think what little extra it might cost you for  
4 fees duplications could be more than saved in the efficiency of  
5 the operation.

6           SENATOR SEYMOUR: Do you believe we can make this  
7 transition and actually save dollars, bottom line?

8           MR. CRUTCHER: Yes, sir.

9           SENATOR SEYMOUR: Do you care to conjecture as to  
10 what percent?

11          MR. CRUTCHER: About 30 percent.

12          Senator Seymour, at one time before the State  
13 Administrative Manual was changed I found that under certain  
14 circumstances I went outside just for installations. And of  
15 course they have done something about this since. But in a  
16 matter of five months I saved \$35,000 in installing equipment  
17 until I was stopped from doing it because we had to have State  
18 people doing it. And there's documentation for this.

19          SENATOR SEYMOUR: Thank you, Mr. Chairman.

20          CHAIRMAN DILLS: Thank you very much.

21          There are three witnesses: Mr. White, Mr. Banks, and  
22 Mr. K. Shiba. I am understanding each is from the -- an  
23 engineer or with the Department of Transportation, but that  
24 they do not purport to represent the Department of Transportation.

25 And since that is an actual statement, why, we can proceed with  
26 whomever of you has the courage to come forward.

27          MR. WHITE: I'm Bill White, Chief Telecommunications  
28 Engineer for California Communications.

1 Senator Dills, thank you for the privilege of  
2 appearing here. The agency knows we are here, and with their  
3 concurrence, but they don't disapprove or approve of what we  
4 are saying, because they really don't know.

5 CHAIRMAN DILLS: It's a question of what side the  
6 neutral zone?

7 MR. WHITE: That's right. And although my expertise  
8 is primarily in the radio, I do manage the private line  
9 telephone system for the Department which would include 12  
10 switchboards and telephone systems throughout Caltrans in the  
11 private sector -- private line-type telephones.

12 Now I understand the goals are noteworthy on this.  
13 It says:

14 "Senate Resolution for immediate  
15 establishment of centralized professional  
16 management of telecommunications with the  
17 State."

18 And the goals are noteworthy, but in 1948 there was  
19 the California Communications Study, and it apporached the same  
20 problem. Not with deregulation, but with centralization. And  
21 based on that study most of the telecommunications functions  
22 were centralized under General Services Communications -- well,  
23 General Services was Department of Finance at that time.

24 Unfortunately centralized telecommunications under  
25 the present Communciations Division is not working well, in my  
26 opinion. The products coming out of the Division are overpriced,  
27 poor in quality, and slow in delivery. And I can give some  
28 examples, and I have a book about four inches thick that has a

1 lot more, but time being what it is, I am giving you four  
2 examples. And Mr. Crutcher mentioned over \$100,000 for each  
3 communications technician. We paid 109,000 for a technician  
4 which equates to \$61 an hour. And it's also the opinion of  
5 Caltrans' Legal Department that we have been overcharged about  
6 a half a million dollars over the past three years for radio  
7 service. So that's between the Legal Department. I don't  
8 want to get into that.

9 Caltrans has been made to wait two years or more to  
10 get work accomplished. Two years ago Caltrans regionalized  
11 the highway maintenance program. We put the work orders in  
12 to change the communications system to match the new operations,  
13 and here we are two years later and they are just getting in,  
14 or just have been installed.

15 The State microwave system we determined about a year  
16 ago or two years ago to make a study of the cost effectiveness  
17 of the State microwave system, and we found the cost so  
18 prohibitive that we abandoned all our interdistrict microwave  
19 circuits. We have taken all the microwave telephone systems  
20 out of four of our transportation districts. Even with  
21 deregulation facing us we are not sure that it still isn't the  
22 right way to go. And this decentralization that Mr. Crutcher  
23 mentioned of the major agencies as an option.

24 Another thing that I would suggest is a body like the  
25 PUC within State government to be able to set rates and regulate  
26 the operations, if it's a centralized operation, or if it's  
27 decentralized. The fact that the microwave telephone system  
28 appears that we can't manage it within, the microwave system

1 just isn't cost effective. At one time I think they were going  
2 to try to sell the system, but I don't know what happened at  
3 that time. We had no buyers.

4 And my conclusion is that the State must seek a way  
5 in which to get the Communication Division in the real world.  
6 I don't think there is a real world of maintenance, engineering,  
7 any of the functions they do.

8 CHAIRMAN DILLS: Your suggestion again was that  
9 perhaps some communication or some body similar to the PUC --

10 MR. WHITE: Well, right now we have the State Radio  
11 Users Committee that is an advisory committee to the Department  
12 of General Services. But it has been a failure because the  
13 advise hasn't been -- I don't know whether it hasn't been  
14 listened to, but it certainly hasn't been taken.

15 About 1970 there was a Communications Advisory Board  
16 which was I believe -- reported to the Legislature, but they  
17 abandoned that about four years ago and merged the function into  
18 the present advisory board. And I resigned as vice-chairman  
19 of the Users Committee about four months ago, because it was  
20 a waste of everybody's time. And Mr. Crutcher resigned as  
21 chairman. I had served as chairman and vice-chairman previously.

22 Any questions?

23 CHAIRMAN DILLS: Any questions?

24 Senator Seymour?

25 SENATOR SEYMOUR: Thank you, Mr. Chairman.

26 Mr. White, obviously you have a feel for the needs,  
27 the communications needs in the department of Caltrans. Similar  
28 to the question that I had asked earlier, would you care to

1 estimate or project what kind of savings you might be able to  
2 achieve, cost savings if in fact the structure were to take a  
3 decentralized approach and you were in essence responsible  
4 for your own communications?

5 MR. WHITE: Well, I can give you an example of that.  
6 I have been inquiring into cost of new switchboards in our  
7 various districts. And then we are looking at two-way. Right  
8 now the district office, let's just say Eureka or one of our  
9 district offices has a commercial telephone system and they  
10 have a private line telephone system. And so I have recently  
11 gotten some competitive bids or pricing to replace the present  
12 State-owned microwave telephone system. And let's say District  
13 I, Eureka, Comp Division charges about \$900 a month to maintain  
14 the switchboards and the telephones. In that 900 is some money  
15 for depreciation to replace the board at the end of the life.  
16 The quotation -- and I have three companies coming in with  
17 quotes -- the quote, if I get a new lease, five-year lease-  
18 purchase, I can get the system for under \$500 a month. At the  
19 end of five years all brand new equipment belongs to the State.  
20 And that's maintenance included. So it's almost half the  
21 price of the present operation. So 50 percent would be  
22 probably exaggerating, but the 30 percent should be no problem  
23 whatsoever.

24 SENATOR SEYMOUR: Do you think you could hit 30  
25 percent as well throughout the whole department?

26 MR. WHITE: Yes, I do.

27 SENATOR SEYMOUR: Thank you, Mr. Chairman.

28 CHAIRMAN DILLS: Thank you.



1 MR. WHITE: And Don Banks.

2 CHAIRMAN DILLS: Banks?

3 MR. BANKS: Yes, Don Banks. I am a telecommunications  
4 engineer with State Caltrans. I would like to present to you,  
5 Mr. Chairman, and to the members of the Committee a thought,  
6 here, in that I know that you are involved in -- or thinking  
7 about developing the organization for communications throughout  
8 State government. I have one suggestion, here. And first of  
9 all I will present the problem. And it's -- it's already been  
10 touched on, but in a different vein. More from a cost aspect  
11 than from what is really right and wrong.

12 Let me start out: Within State government the  
13 majority of two-way radio equipment is used as a tool to support  
14 public safety agencies. For example, CHP is charged with  
15 law enforcement; Caltrans is charged with highway safety; and  
16 Forrestry is charged with fire protection. Now under the  
17 present philosophy and management of General Services, when  
18 immediate service of two or more radio transmitters belonging  
19 to different public safety agencies is required at the same  
20 time, a judgment must be made. That judgment, the judgment of  
21 which agency; indeed, the judgment of which public need is  
22 first served falls upon the shoulders, the decision of a tech,  
23 a radio technician and a field. Not by any choosing of his  
24 own, but that's the way it's set up. And they also decide  
25 which public safety agency must wait to be served.

26 Now these technicians, like I say, it's by no fault of  
27 their own. But they are put in that position, and they are  
28 generally services, field technicians, not supervised, nor

1 directed by any public safety agency. So I believe that this  
2 procedure is a deficiency, a default in the conduction of  
3 public safety programs within State government.

4 I believe some of these decisions, these judgments  
5 as to which get service first can be highly arbitrary; it can  
6 be biased. I think in many cases they can be wrong. I would  
7 like this Committee to consider a suggestion, and that suggestion  
8 goes along with the suggestion of my boss, Mr. White, and  
9 Mr. Crutcher, and that's that certain public agencies really  
10 have a force of their own radio technicians. These would be  
11 the agency -- well, I can only speak -- I really can't speak  
12 for Caltrans, but Caltrans would be one that I believe is  
13 needed that I can recognize. I believe CHP and Forrestry would  
14 be another.

15 I submitted this, and I have copies of it. Or most  
16 of your members do in the forum. I have suggested an awards,  
17 except that the merit award board does not have within its  
18 power to make a judgment on establishing positions or relocating  
19 positions from one department to another. So I thought I would  
20 present that to you. It's a little more explanation on it,  
21 and it also shows you a letter of a result.

22 That's all I have. Are there any -- I defer for  
23 any questions.

24 SENATOR GREENE: Mr. Chairman, I have a question.

25 CHAIRMAN DILLS: Senator Greene?

26 SENATOR GREENE: Either Mr. Banks or Mr. White. Well,  
27 Mr. White, as you know, when I first started asking questions  
28 in this area, I don't know if you related to the Committee the

1 fact that the Department of Transportation was at one time or  
2 another, or recommendation has been made to the Director that  
3 the Department of Transportation considered pulling out the  
4 existing system as it is now and developing its own communications  
5 system, or going in some other direction.

6 Have you related that to the Committee? And if not,  
7 I guess the appropriate way is to have a question posed to you  
8 and you are at liberty to get into that area. Has that been  
9 discussed? My apologies for stepping out.

10 MR. WHITE: No, It hasn't Senator Greene. And --

11 SENATOR GREENE: Would you please at least put it  
12 into our record so that we have -- I would like to have it in  
13 the record, since it's something that I discovered when I  
14 started digging around in this area, because I think it's  
15 important to the kinds of considerations that the Committee will  
16 have to make in the overall subject.

17 MR. WHITE: Well, our management analysis people  
18 have studied this oh, about four, five times. And each time  
19 they come up with the facts that it would save in excess of  
20 500, 600,000 a year if we would take over everything except the  
21 State microwave system. Our own radio maintenance and closed  
22 circuit television. And we were going to embark on a total  
23 system, or take back all of our technicians, reducing Comp  
24 Division staff by the amount that we would hire so it wouldn't  
25 change the State total any. And we decided to go on a two-year  
26 trial period just in one of our districts, our San Francisco  
27 District. Our District Four. And there is every indication  
28 that even just the simple District Four trial should produce

1 about 150 to 200,000 a year savings just in that one district.

2 Then we talked about personnel. I forgot to mention  
3 something on the microwave. I understand -- this may not be  
4 fact -- but adding the ATSS to the State microwave system  
5 seems commendable if it works. It sounds like a good thing.  
6 But I understand that with this goes an added ten to 23 microwave  
7 technicians that the Comp Division plans to hire. Now that  
8 may or may not be true, I don't know.

9 SENATOR GREENE: What were the kinds of problems  
10 that developed to occasion the Department of Transportation to  
11 give thought to -- or to pursue the idea of pulling your people  
12 out and operating your own system?

13 MR. WHITE: Well, I have had experience up to 1970 we  
14 did that. So we really have something to carry it with. And  
15 since 1970 the service has gone down and the cost has gone up.  
16 And we just feel it would be more cost effective for Caltrans  
17 and the State, for that matter. Because there agin, if we  
18 save money and the personnel comes over from Caltrans, it's  
19 not additional personnel. Just a savings to Caltrans and the  
20 State, plus as Mr. Banks indicated, it would be advantageous  
21 from a point of view. Priority on repairing equipment in the  
22 middle of a storm or something. We vie for service. If the  
23 shop happens to be in a CHP facility, obviously they would get  
24 priority. If the shop were in our facility, we would get  
25 priority. And not only is the cost effective, it's just --  
26 on the Oakland Bay Bridge we have had our shop there for the  
27 last 20 years. And our hourly rate is \$31 an hour, including  
28 parts versus Comp Division's \$61 that we paid last year. So

1 that makes a good reason to want to go our own way.

2 SENATOR GREENE: Thank you.

3 CHAIRMAN DILLS: May I ask Mr. Banks, calling your  
4 attention to the way you suggest it should be on page three  
5 of your report:

6 "Remove a number of radio technicians from  
7 under General Services and apply them directly  
8 under public safety agencies such as Caltrans,  
9 CHP, CDF."

10 Was that changeover made in 1970?

11 MR. WHITE: Yes, in 1970 we had our own. We had a  
12 two-year trial period, and in 1972 it was formalized. I  
13 believe the amount shows that we'd save \$163,000 if we merged.  
14 That's pretty hard out of a \$3 million budget, or whatever.  
15 One hundred sixty-three, now. And it proved that that hasn't  
16 been the case.

17 CHAIRMAN DILLS: I get the feeling that there are  
18 members of the public, let's put it that way, perhaps some  
19 legislators that feel that these things ought to be brought to  
20 someplace where there is one general authority. And here we  
21 have a breaking down into smaller units.

22 MR. WHITE: Of course my idea with the PUC or  
23 something like that to regulate all communications in the State  
24 would take care of that. In other words, you can decentralize  
25 to a point. You don't have to completely decentralize, but  
26 you can decentralize to get the job done.

27 CHAIRMAN DILLS: General Service has too many other  
28 obligations, too many other things to do.

1 MR. WHITE: Well, in my opinion, yes.

2 MR. BANKS: Senator Dills, this is strictly directed  
3 towards public safety agencies.

4 CHAIRMAN DILLS: Yes.

5 MR. BANKS: There are many other agencies where I  
6 think General Services can do a real fine job, but we are dealing  
7 with highway safety and law enforcement. I believe that  
8 these people have to be directed by their own operating people  
9 so that they can get service people. They don't have to stand  
10 in line and have some technician who is way down on the line in  
11 administration make this judgment as to which public service  
12 is served first. And I really can't speak for CHP or Forrestry,  
13 but I know in Caltrans we are just not receiving the service  
14 as fast as we'd like.

15 CHAIRMAN DILLS: Thank you.

16 MR. BANKS: Thank you, sir.

17 CHAIRMAN DILLS: Thank you, the two of you. We  
18 appreciate your comments and your suggestions.

19 MR. GOULDEN: Senator Dills, thank you for asking  
20 me to this hearing today. My name is Dick Goulden, I am the  
21 communications officer for the Department of Parks and Recreation.  
22 My former supervisor Mr. Crutcher already testified. And I  
23 think the first thing I'd like to say is "help." What's already  
24 been testified so far pretty well indicative of what I'd like  
25 to say today. I could only more or less elaborate on it.

26 The Department of Parks and Recreation has a  
27 responsibility for police, fire, public works, and emergency  
28 medical in a park. We have 52 areas spread out throughout the

1 State of California. We have an urgent need for communications,  
2 for saving people's lives, and rescue and fires and all types  
3 of emergencies. The service that we are receiving from the  
4 Department of General Services Communications Division is  
5 inadequate. I have no quarrel with the system of one agency  
6 performing the service for us. If that agency doesn't have to  
7 pay taxes, doesn't have to make a profit, it should be able to  
8 accomplish their mission with at least at the same cost as  
9 private industry. But right now cost isn't an issue, even though  
10 it's an issue in the State. We can't get anything done no  
11 matter what it costs. And it's an urgent thing.

12 We have this Users Committee, but there doesn't seem  
13 to be any dialogue between these people. They will not listen  
14 to our complaints, they will not respond to our needs. As  
15 an example, I had just recently a portable in a southern desert  
16 area that was given to a technician in May. And they finally  
17 called me and they said, "What can you do to get it fixed?"  
18 And the irony of it is that they do have a system right here  
19 in Sacramento, and it works very well. It's a depo maintenance-  
20 type. And it may take three weeks, but not five months.

21 Well, that isn't a big thing, but this is the fourth  
22 time this year that I have had to tell the people in Sacramento  
23 to make arrangements for them to send it in. So they don't  
24 seem to have any communications with their people in the field  
25 to get the job done.

26 Some cost factors: We -- last winter we had a bad  
27 storm that came through on Angel Island. We lost a telephone  
28 line. Now that telephone line was owned by Parks and Recreation.

1 And it cost us about \$2,000 to fix, and it wasn't worth fixing.  
2 But that was after the fact, and they worked on it and they got  
3 it going again. But I gave instructions in writing not to do  
4 anymore work on this line. And in the meantime about a month  
5 ago the line broke down again and they went ahead and fixed it  
6 in spite of the fact they had the written instructions in  
7 writing not to work on it.

8 Another situation of a telephone line, in-house.  
9 They worked on it, spent about \$1100 trying to fix it, and it  
10 was owned by Pacific Telephone. It wasn't even owned by us.

11 CHAIRMAN DILLS: Were they faster in that one?

12 MR. GOULDEN: Now I can't keep track of every -- we  
13 have something like 400 telephone lines connected to radios  
14 in the State of California, and I can't keep track of each one  
15 and every time they go out there, because I don't know.

16 Again, I'd like to emphasize that we would like to  
17 work with them and we would like them to provide us the service.  
18 But we cannot live with the service they are giving us now, and  
19 we can't live with the cost. They -- well, this was in  
20 February. They went out to Anza-Borrego and they have to service  
21 that park from San Diego. They had to install two sirens. Now  
22 the only thing I can think of was the technician had to be in  
23 the desert in the wintertime, because he installed one on  
24 Monday and the other one on Friday. It cost us about \$650 to  
25 install those two sirens.

26 CHAIRMAN DILLS: Not too far from Palm Springs.

27 MR. GOULDEN: I really don't know all the reasons  
28 behind it, but I know we can't live with this kind of service.



1 And essentially that's what my testimony is today. We need  
2 help to get this turned around.

3 CHAIRMAN DILLS: I am prompted to say, now that the  
4 elections are over, that which I am about to say is not a  
5 campaign speech. But we who have been in the Legislature for  
6 a period of time go back home and we find the public pointing  
7 its finger at us and blaming us for these damn bureaucracies  
8 and these agencies and these regulatory bodies, and so on and so  
9 on with which they have all the trouble. And they can't get  
10 solutions to their problems, and we have to run in the face  
11 of that kind of criticism because they hold us directly  
12 responsible. Now I don't like it, because I don't think I  
13 am responsible except perhaps in that we haven't been able to  
14 get this information from the field such as we are getting  
15 here, today. Maybe we are negligent in our duty in not  
16 receiving the type of information which we are getting today.  
17 Then after receiving it, being in a position to do something  
18 about it, implement it or go from there. But -- campaign speech  
19 is practically over, now -- but I do want to point out to you  
20 that we have this same criticism of us. Because we are held  
21 responsible for the stupidity of such things as paying \$61  
22 an hour for outside people and so on whenever we have people  
23 who could or should do that very same thing. So as

24 So as one, I want to thank all of you who have brought  
25 these specific circumstances into the record, here, and into  
26 mind so that we can take it from here, rather than try to justify  
27 or apologize or cop out. But it could and should be helpful in  
28 the direction which we go from here on in.

1 End of speech.

2 Any questions?

3 Thank you very much, Mr. Goulden. We appreciate your  
4 frankness and your assistance.

5 Larry Mullnix, Chief of Operations, Department of  
6 Water Resources.

7 MR. NORIEGA: Senator Dills, my name is Archie  
8 Noriega, I am with the Department of Water Resources. I am a  
9 telecommunications engineer and telecommunications manager for  
10 the department.

11 CHAIRMAN DILLS: Would you spell your name for us?

12 MR. NORIEGA: It's N-o-r-i-e-g-a.

13 Our department utilizes many forms of communications  
14 from the telephone company, from General Services, and from  
15 private interconnect. I think we could come up with similar  
16 stories that have been brought up here, recently. We could  
17 also bring up some good points that they have done.

18 CHAIRMAN DILLS: We could use some of those on  
19 occasion, too.

20 MR. NORIEGA: I think we could come up with both.  
21 But we are concerned with deregulation, where it's leading.  
22 We'd like to discuss a couple of discussions that could, I  
23 think, put us in a better position to meet deregulation.

24 Mr. Mullnix is Chief of Water Operations, and he  
25 would discuss a department-owned digital microwave system to  
26 meet our needs, and possibly the needs of other agencies.  
27 And then Mrs. Diana Teitzel, who is a department telecomm  
28 analyst will discuss the same thing, concerns and observations

1 regarding decentral -- not decentral -- well, decentralization  
2 and the situation that deregulation will bring.

3 CHAIRMAN DILLS: Thank you. Mr. Mullnix?

4 MR. MULLNIX: Thank you, Senator. My name is Larry  
5 Mullnix, I am chief of Operations, Department of Water Resources.

6 In the early development stage of the State Water  
7 Project the Department of Water Resources chose to utilize  
8 lease telephone facilities to operate the State Water Project,  
9 because at that time the attitude was that the State was not  
10 to compete with private enterprise in developing communications  
11 systems.

12 For our operation we knew we needed a fully redundant  
13 system, and thought we had one until we suffered a failure at  
14 the local exchange last year. That failure pointed out that  
15 we did not have a redundant system. Everything went through  
16 one exchange. When the exchange lost power, we lost communications.

17 It's imperative for our operation that we have a fully  
18 redundant system. We are currently not pleased with having  
19 to deal with 12 separate telephone companies. You have only  
20 had a couple talk to you today, but there are an awful lot  
21 in the State which the project intersects. With deregulation  
22 this certainty of our problems grows ominous.

23 Due to the spiraling communication carrier costs,  
24 both current and projected, and because of the uncertainty  
25 that deregulation brings, we are forced to investigate the  
26 development of our microwave system. The California Water  
27 Commission recently conducted an investigation of our  
28 operation, and solved problems with our telephone company

1 operation. They independently recommended that we investigate  
2 a department-owned microwave system.

3 Starting in 1983 the Department of Water Resources  
4 will operate as a full-fledged water and electric utility. Not  
5 an industrial customer purchasing power from some other utility.

6 All power utilities have control of the communications  
7 systems, because the imperative factors are controlling their  
8 resources and balancing the use of them with their loads  
9 instantaneously. A department-owned and operated microwave  
10 system would not only resolve our project needs, but would  
11 provide a vehicle which the phone company currently provides  
12 for meeting our telephone needs, data communication, facimile,  
13 electronic mail needs, and other types of communications  
14 transmission such as teleconferencing.

15 We are proposing to develop a digital microwave  
16 system with hot standby, space diversity, and battery backup  
17 This system would go from Sacramento to the Perris reservoir  
18 in Riverside County, and parallel the State Water Project. No  
19 right-of-way clearance would be required since it would be  
20 on State Water Project land. This approach would provide  
21 a reliable system which could be easily accessed for maintenance  
22 during adverse weather, and involve a minimum of travel time.  
23 The University of California is currently exploring the  
24 development of a similar microwave backbone. They have  
25 indicated they would be willing to combine resources and help  
26 devise a microwave backbone which would parallel the State's  
27 Water Project, thereby maximizing its use. Unused channels on  
28 this backbone could be used for meeting voice or telecommunication

1 needs for other agencies.

2 We are asking for an exception from current regulations  
3 to enable Department of Water Resources to design our own  
4 system, prepare specs so we can be assured of the most  
5 reliable and up-to-date equipment, and to use our own personnel  
6 to maintain the system. We feel this is necessary, because due  
7 to our utility operation extremely important that we have  
8 immediate response from our own technical forces to effect  
9 repairs. You have already heard of some of the problems of  
10 public service agencies; we believe our problems were as  
11 severe.

12 Departmental personnel will be more sensitive to  
13 our needs, more readily available, and we could place priority  
14 as to our needs.

15 We currently have in the field technicians who are  
16 digital experts and maintain over 100 computers for microprocessors  
17 to large-frame computers as well as modems to communicate from  
18 field sites. These digital-trained personnel could be utilized  
19 in part to maintain the digital microwave system.

20 To operate as a utility we will need immediate  
21 technical service 24 hours a day which our people can and have  
22 been providing on their project uses. Neither the telephone  
23 company nor Communications Division presently provide this.  
24 Since our technicians currently maintain computers in

25 communications equipment for the project on a 24 hour basis we  
26 would not have a duplication of effort which we would if another  
27 agency were to maintain the system.

28 The general service technicians are slow to respond

1 to our needs and our own people. And charge up to \$14 an hour  
2 more.

3 Currently both the telephone company and the General  
4 Services cost are out of our control. The Department will,  
5 in spite of our request, develop our own microwave backbone while  
6 still utilizing microwave system to meet our telemetry and  
7 mobile radio needs and in part, our power management needs.

8 The theme of Resolution 52 is to form a centralized  
9 organization to plan, engineer, and manage telecommunications  
10 systems. One only has to look around to see that instead of  
11 centralization, decentralization is taking place. The phone  
12 company is decentralizing, computer systems are branching out,  
13 and the CENTREX is being eliminated.

14 It would seem we would not want to put all our eggs  
15 in one basket. A department-operated system could serve our  
16 needs, the needs of UC, and other agencies should they desire.

17 I have already heard these words before, but I like  
18 to repeat them: Again, total centralization leads to unwieldy  
19 bureaucracy. That we in State government do not need. We do,  
20 however, need an overseer to insure compliance with State-  
21 determined objectives and regulations. Individual agencies  
22 which have not developed their own expertise should be able  
23 to use these resources, since the individual agencies know  
24 their needs, objectives, costs, and tight budget.

25 I'm sorry, I said which have "not" developed their  
26 own. I mean individual agencies that have their own facilities  
27 should be able to accomplish this purpose.

28 CHAIRMAN DILLS: We heard earlier that the present

1 microwave system we have has been utilized, someone said 40  
2 percent; another person questioned if it was as much as ten  
3 percent.

4 How does that square with your desire to have your  
5 own system; and did you say that you thought you would be able  
6 to use the present system also in addition to that?

7 MR. MULLNIX: The present system -- we would use  
8 the present system in the northern part of the State for our  
9 telemetry needs and for our mobile radio needs. The digital  
10 microwave system which we propose is one which is very easily  
11 adapted to voice transmission, data transmission, and we would  
12 use it along the aqueduct. And it would actually supplement the  
13 State microwave system. We do not use the same system now in  
14 the areas we are proposing to use the new system along the  
15 aqueducts.

16 CHAIRMAN DILLS: Why?

17 MR. MULLNIX: It's not applicable. It will not go  
18 into the areas we are interested in touching, and it will not  
19 handle the high rate of traffic that we need to have handled.  
20 We believe a digital microwave system is necessary, and it's  
21 not reliable enough. Our reliability cannot be -- someone  
22 mentioned 99 and nine tenths percent or something, and even  
23 99. We have to have a redundant system. We have to have a  
24 hot system both ways, and even that, our burried cable would  
25 be a backup to communications system. We have to be on the  
26 line continually. Communications cannot break down in a utility  
27 basis.

28 CHAIRMAN DILLS: Senator Seymour?

1 SENATOR SEYMOUR: Thank you, Mr. Chairman.

2 Mr. Mullnix, what is your total communications  
3 expense annually, now?

4 MR. MULLNIX: Around \$700,000 a year. That's just  
5 the State Water Project. I am not speaking for the total  
6 department, just the State Water Project side of that. That's  
7 700,000.

8 SENATOR SEYMOUR: And this new system you are talking  
9 about that you'd like to get into, do you have any idea of the  
10 capital cost of that?

11 MR. MULLNIX: My understanding, and we are still  
12 investigating it, my understanding is we are talking around  
13 about \$4 million of the capitalized value.

14 SENATOR SEYMOUR: And operating costs thereafter  
15 of the system?

16 MR. MULLNIX: I do not have a hang on that, sir.  
17 My understanding, it's a lot less than taking a present worth  
18 of 700,000. And that's only the present worth -- that's only  
19 the money we are now spending. And we have the understanding  
20 that that will get higher. The 700,000, we are talking 700,00  
21 to capitalize in let's see. Pardon me. We're talking \$10  
22 million or so as a capitalized value, and I don't think that --  
23 our problem is the present system we are paying for, we thought  
24 we were paying for a redundant system. We're not. We are not  
25 even getting what we paid for. And as an operating utility  
26 which we will end up in April 1st '83, we cannot afford to  
27 continue this sort of operation without a redundant system. We  
28 will not know that our loads are matching our resources. The

**PETERS SHORTHAND REPORTING CORPORATION**

3435 AMERICAN RIVER DRIVE, SUITE A  
SACRAMENTO, CALIFORNIA 95825  
TELEPHONE (916) 972-8894



1 penalties could be severe. And the other utilities are not  
2 going to pick up the tab for us.

3 SENATOR SEYMOUR: Thank you, Mr. Chairman.

4 CHAIRMAN DILLS: Any other questions?

5 Thank you very much, sir. Now we have another  
6 witness, please?

7 MS. TEITZEL: My name is Diana Teitzel, with the  
8 Department of Water Resources, Telecommunications Analyst.

9 For the Department of Water Resources and the area  
10 of deregulation, this is going to be one of heavy fiscal  
11 impact for us. Our telephone bill now is almost \$2 million.  
12 Projected rate increases and deregulations, it will more  
13 than double, even if we make no modifications or additions  
14 in what we have.

15 CHAIRMAN DILLS: Excuse me. How did you arrive at  
16 that conclusion?

17 MS. TEITZEL: At the \$2 million?

18 CHAIRMAN DILLS: That it will more than double.

19 MS. TEITZEL: By some of the projected rate increases  
20 I have seen and the articles on deregulation of business  
21 lines doubling, straight service rates doubling. We have  
22 seen 18 percent in the last year.

23 CHAIRMAN DILLS: That's because they are asking for  
24 it. You may not get it.

25 MS. TEITZEL: I hope not.

26 The Resolution 52 states that CENTREX will be  
27 replaced. And we are interpreting this to mean that the  
28 agencies would lease or own stand alone PBX's. And Department

1 of Water Resources feels that the Resources Building -- I'd  
2 like to give you a little personal example, here. It's a  
3 prime example of why a stand alone PBX of the digital type  
4 would be a good idea.

5 Our building was designed over 20 years ago, and we  
6 have a lot of data communications now in the building. We  
7 have our own computer system. And the complications of the  
8 cabling power, air conditioning space and everything involved  
9 with that has really skyrocketed in this last year, including  
10 the cost to run all of this. And we find ourselves being in  
11 a communications office, we are providing for the running of  
12 the COLAX cable all over the building to accommodate all this  
13 equipment. And as State buildings do, we have a lot of people  
14 constantly on the move. Offices making moves, and all these  
15 cables and all these provisions have to be redone. Total  
16 waste of money.

17 The duct work in the building is filled to capacity.  
18 So we have been looking, searching some other avenues as to  
19 how we can get around this block. Besides, all the data  
20 problems we have -- of course when people move their office  
21 they take their phone with them. And we have to provide for  
22 these moves and changes, and they are getting very expensive.  
23 The phone company in each instance has to come out and make  
24 this move. Physically.

25 Digital PBX is a new piece of equipment on the  
26 market offered by several companies. And it integrates voice  
27 and data over the same pair of wires. So when you relocate  
28 your office and your telephone, if you have a terminal in that

**PETERS SHORTHAND REPORTING CORPORATION**

3435 AMERICAN RIVER DRIVE, SUITE A  
SACRAMENTO, CALIFORNIA 95825  
TELEPHONE (916) 972-8804

1 office, everything is automatically done. Most of that can  
2 be done by a programmable keyboard that would be at the main  
3 frame on-premise in the building. No need for anybody to come  
4 out. We have a lot of program people in our department that  
5 could handle this. So we would stop running the COLAX cable,  
6 and it would allow our own staff to make these changes. And  
7 another thing we'd save is the time delays in our department.  
8 And for any department, of course, time is money for people.

9 As far as planning these systems, as was mentioned  
10 before, some of the larger departments, we feel our own  
11 department is the most sensitive to our own needs. We feel  
12 we have the expertise in having the professional staff to  
13 handle these things in-house. And perhaps agencies without  
14 this type of staffing, smaller agencies or someone with their  
15 expertise directed in other areas could go to a central body  
16 for assistance.

17 In the area of management of the systems, the user  
18 almost has to do the management of it. Again, the user is the  
19 one signing the tab for the bills, doing the budgeting. We  
20 have to go before our bodies to justify these monies two years  
21 in advance. And we are most sensitive to what our needs and  
22 uses are, there.

23 The Resolution's also stating that the communications  
24 system is huge and complex, and that's very true. Such as the  
25 CENTREX that's been mentioned time and again today. But the  
26 technology today allows for us to connect these things. If  
27 we do this piecemeal and don't wait for a huge master plan as  
28 was once conceived, we can cut the conductivity and modularity

1 of all these systems. We connect this up, do this a bit at  
2 a time, and not wait for the great big step and be perhaps  
3 wasting dollars in the meantime.

4 I also feel -- our department feels that our work  
5 force and personnel is where our real cost is. Hardware  
6 costs are getting cheaper all the time, and we need to provide  
7 the best tools for these people to get the job done. People  
8 are being paid very high salaries. The Department of Water  
9 Resources is basically a professional organization.

10 So in the industry -- the way the industry has been  
11 moving, we have looked to the current centralized body in  
12 February of this year for some direction and assistance. And  
13 we have had very little results with this. So this is what  
14 prompted us to look on our own at some of these items. We  
15 looked into the local area networking possibility and the  
16 digital switches and presented these to the central body as  
17 alternatives. Again, asking to wait until some other studies  
18 were completed. And we haven't heard back, yet.

19 The resources situation is a problem now. We have  
20 requests every week coming in for new systems. We have  
21 committed to a new computer and to a master lease of computer  
22 in the EDP area. And we are committed to \$30,000 a month just  
23 in rental of this equipment. And we are obligated to pay that  
24 rent, even if we can't hook it up. And so we feel this digital  
25 PBX would be an area that we could perhaps solve this problem.  
26 And we'd like to have some consideration be given that maybe  
27 the Resources Building could be a test case or something of  
28 this type.

1 I have a couple of small examples. Everybody's giving  
2 their examples. On the CENTREX program it was mentioned that  
3 perhaps it wouldn't be around too much longer. That was brought  
4 around two years ago like with the single-line concept. And  
5 we have worked diligently to put that in. Implement it in  
6 every area in our resources building that we can. In some  
7 lack of communication or maybe a lack of planning somewhere the  
8 people that plan the facilities for these downtown State  
9 buildings, we did such a good job selling single-line that we  
10 were out of facilities for several months on two occasions.  
11 We had no cable pairs in the building. And your people don't  
12 stay like just in one place because you have no telephone  
13 facilities.

14 The last thing I wanted to mention was perhaps  
15 the situation of selecting inferior equipment or obsolete  
16 technology, if each department was to do this on their own.  
17 We are of the feeling that we already have an obsolete  
18 technology. And not necessarily inferior equipment, but  
19 certainly obsolete technology in the commitments that have  
20 been made for CENTREX. So we would like to see a little  
21 more responsibility being given to our department and see a  
22 central body acting more as an assistance, than their watchdog  
23 technique where they approve or disapprove of what we would  
24 propose to them.

25 CHAIRMAN DILLS: You would like a wee bit of deregulation?

26 MS. TEITZEL: Or consideration.

27 CHAIRMAN DILLS: Any questions or comments?

28 Thank you very much. We appreciate your testimony.

1 Captain William Schaffer, Commander, Telecommunications,  
2 California Highway Patrol, and Miss Nelda Nickels, Tele-  
3 communications Manager, CHP.

4 MR. SCHAFFER: Mr. Chairman, and members of the  
5 Committee, I am Captain Bill Schaffer, Commander of the CHP's  
6 telecommunications section. Our section is responsible for  
7 the planning and implementing of actions necessary to provide  
8 adequate communications supports statewide for our field  
9 operations.

10 Our total telecommunications budget is about \$24  
11 million for this year, and of that amount about 2.7 is  
12 earmarked for telephone service. So as a public safety agent  
13 you can see that we are vitally interested in the future of  
14 the telecommunications and telephone industry.

15 Although I am here and although we are both here as  
16 CHP representatives, I need to point out that due to the  
17 short notice we had of the meeting I have not had a chance to  
18 discuss my testimony with Commissioner Craig. So I could be  
19 assigned to Mojave or Death Valley by Friday.

20 (Laughter)

21 CHAIRMAN DILLS: We will try to communicate that  
22 lack of our own timeliness.

23 MR. SHAFFER: All right. As SR52 points out, there  
24 are challenges involved in the dismantling of the Bell System,  
25 but we feel there are also great opportunities. There is a  
26 wide variety of equipment and systems that are out there, now.  
27 And we see the opportunity for State users to try these systems  
28 at what we hope would be competitive prices.

1           While some changes should and would have to be made,  
2 a system of competitive procurement exists now that allows the  
3 State to obtain goods and services that meet minimum  
4 specifications, hopefully at competitive prices. While this  
5 procurement process can work, one of the weak links at the  
6 moment is the inability of some operating departments to  
7 analyze, define, substantiate, and prioritize their own  
8 requirements. However, unless departments want to give up  
9 control over the funds they budget, they cannot and should not  
10 expect a central control and service agency to do the  
11 operating department's share of the work. If you loose control  
12 of the funding and what it buys, you loose the influence  
13 required to accomplish your mission.

14           We presently deal in our section with a variety of  
15 vendors. And we are prepared and ready and able to do so with  
16 telephone equipment. As far as planning goes, there also  
17 exists a planning vehicle now, we feel, for each department's  
18 telecommunications needs in the form of the five year  
19 telecommunications plan that is presently required by the  
20 State administrative manual.

21           Now as the resolution states, replacing the  
22 CENTREX system would be a vast and expensive project. At this  
23 point in time I and I think the people in my section would  
24 hesitate to assume without any detailed study that the State  
25 could or should undertake the task, and that if done it would  
26 be cost effective. I think it's simply too soon to tell. And  
27 while we are not privy to Comp Division's proposal for  
28 reorganization, we do recognize and agree with the need for

1 centralized control in individual departments and their  
2 telecommunications planning and spending. We would not want  
3 to see that control, though, become so rigid that individual  
4 operating requirements are not effectively met. We'd rather  
5 see the establishment of guidelines that allow flexibility to  
6 meet our needs and then have our performance monitored to see  
7 if it falls within those parameters. Too often in the past  
8 we've seen rigid centralized control that failed to meet  
9 individual needs and end up costing more.

10 In summary, we feel that the changes in the future  
11 can have a beneficial effect, and that procedures now exist  
12 that can accomplish the planning and procurement in an  
13 efficient and effective manner. We would hesitate to recommend  
14 an overhaul of our present structure until such time as a  
15 clear need makes itself known.

16 That's the extent of my remarks, and I would be happy  
17 to answer any questions.

18 CHAIRMAN DILLS: Senator Greene?

19 SENATOR GREENE: Captain, in getting enough information  
20 on this subject for drafting a resolution, I was informed that  
21 if we had a major emergency in this State, that the State's  
22 portion of the communication system and its ability to  
23 interface with local jurisdictions and to make it into other  
24 existing systems, that the structure now and the ability to  
25 do that is somewhat hampered if we were to have a real major  
26 say, like a major earthquake or rain with mud down and five or  
27 six different places in the State. Say, maybe three rural  
28 outlying areas, a couple of urban areas and what have you, that



1 we would be pretty -- under the system that we have now and  
2 the way we operate, we could possibly be in pretty sad shape.

3 Would you agree with that in part, totally, or  
4 disagree with it?

5 MR. SCHAFFER: I would certainly agree with it in  
6 part, at least. We have some procedures, now, for various  
7 services such as police and fire to communicate within their  
8 own structure. But we certainly do not have a capability for  
9 all of the emergency service providers to cross-communicate  
10 with each other in an effective fashion. There are highway  
11 maintenance people, the emergency medical aid providers, police  
12 and fire and no system exists at this time to allow them to  
13 cross-communicate. That has been the subject of the Committee  
14 under Senator Campbell, as I am sure you know.

15 SENATOR GREENE: I just wanted to get that in the  
16 record.

17 CHAIRMAN DILLS: Thank you. Next witness?

18 MS. NICKELS: I would just like to make some comments.  
19 I have heard some very strange things, here. I have been in  
20 this business for the State Highway Patrol 17-and-a-half years.  
21 And generally what we try to do when we have a responsibility  
22 to meet is to look at ourselves first and decide if we are  
23 meeting that responsibility. We all have horror stories about  
24 an agency who is supposed to be serving us or one who has not,  
25 and it is the same with outside vendors, as well.

26 When the time comes to talk about those sorts of  
27 things, we'd be glad to testify in that regard about Communi-  
28 cations Division, particularly, specifically. We have not had

1 the sort of experience altogether that the rest of the users  
2 seem to have had in that we would do -- are able to obtain  
3 emergency services for true emergencies. Part and parcel is  
4 that we try to provide our people with alternative means of  
5 communication, the knowledge on when to call for assistance,  
6 how to report trouble, and spares. All of that goes toward  
7 managing a communications system just as any service agency  
8 does. So when the testimony comes up for that, we would be  
9 ready to talk to that issue, as well.

10 CHAIRMAN DILLS: All right. Any questions, comments?

11 We thank you very much.

12 MR. SCHAFFER: Thank you, Senator.

13 CHAIRMAN DILLS: It occurred to me as we have had  
14 this hearing that as a somewhat of a student of history, I  
15 thought that we defeated Hitler and I thought that we defeated  
16 the Emperor of Japan. I find that at least in one world,  
17 automobiles, let's say, maybe electronics and others, that  
18 we may not have won that war. They have come on with new  
19 systems and come on with new ideas, and come on with new  
20 equipment and come on with things that are putting us out of  
21 business. It might be somewhat fortuitous that the Bell System  
22 by Federal court decree has been obliged to deregulate. We  
23 may have an opportunity to grasp the situation which those  
24 two countries, generally West Germany and Japan, took  
25 advantage of and instituted some changes and new methods and  
26 procedures, and went in a direction that put them at the top  
27 in many of these fields.

28 So I want to personally thank Senator Greene for

1 having introduced the resolution which was referred to our  
2 Committee; I want to thank all of those of you who have  
3 appeared here for your refreshing and informative remarks. We  
4 are hoping that as a result of this hearing today and others,  
5 if necessary, that we can take advantage of this opportunity  
6 to make some changes in the right direction. Save money, get  
7 better equipment, give the public a better service, protect  
8 ourselves, our lives, and our property, and utilize the  
9 ability that I know that we have in this country.

10 So for that reason, I think that this has been a most  
11 helpful and useful hearing, and it wouldn't surprise me if we  
12 didn't have an opportunity to have another one. And I know  
13 for sure that there will be some very serious questions asked,  
14 and hope some good answers given at such time as the budget  
15 for these various departments comes before our Finance  
16 Committee.

17 So until then, we will see you, and thank you all  
18 for coming to participate, and thank the members.

19 (Thereupon this Public Hearing  
20 before the Senate Committee on  
21 Government Organization adjourned  
22 at 3:09 p.m.)

23 ---oOo---

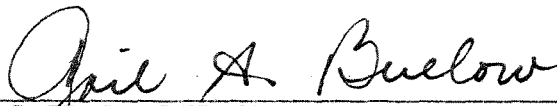
CERTIFICATE OF SHORTHAND REPORTER

I, GAIL A. BUELOW, a Certified Shorthand Reporter  
of the State of California, do hereby certify:

That I am a disinterested person herein; that the  
foregoing Public Hearing before the Senate Committee on  
Government Organization was reported in shorthand by me,  
Gail A. Buelow, and thereafter transcribed into typewriting.

I further certify that I am not of counsel or  
attorney for any of the parties to said hearing, nor in  
any way interested in the outcome of said hearing.

IN WITNESS WHEREOF, I have hereunto set my hand  
this 30th day of November, 1982.

  
\_\_\_\_\_  
GAIL A. BUELOW  
Certified Shorthand Reporter  
License No. 4524



## APPENDIX A

---



Introduced by Senator Greene

August 27, 1982

---

Senate Resolution No. 52—Relative to state telephone communications equipment and services.

1 WHEREAS, On January 1, 1983, the dismantling of the  
2 Bell System telephone network by federal court decree  
3 will change immeasurably the state's dealings with  
4 suppliers of telephone equipment and services, formerly  
5 under the complete jurisdiction of a single telephone  
6 company; and

7 WHEREAS, The advent of multiple suppliers of  
8 telecommunications equipment and services in a newly  
9 created competitive market presents both challenges  
10 and opportunities for the State of California, as one of the  
11 largest users of the equipment and services; and

12 WHEREAS, Since all these events are brand new, all  
13 large corporate and governmental users of  
14 telecommunications services must now develop new  
15 methods of managing and planning in this respect; and

16 WHEREAS, The establishment of alternate  
17 telecommunications transmission systems and the  
18 replacement of the state's Centrex telephone system are  
19 huge, complex projects which will require unified,  
20 centralized planning, a technical competent professional  
21 staff, and a vast manpower commitment to create and  
22 maintain these systems; and

---

23 WHEREAS, If effective, centralized, professional  
24 management of telecommunications is not immediately  
25 established for the state, a proliferation of hundreds of  
26 separate mini-telecommunications departments, often  
27 lacking in experience and knowledge, may be the result,



1 and this will inevitably result in selection of inferior  
2 equipment, obsolete technology, poor servicing,  
3 duplication of effort, and enormous waste of money; now,  
4 therefore, be it

5 *Resolved by the Senate of the State of California*, That  
6 a select committee of seven members appointed by the  
7 Senate Rules Committee is hereby established, and that  
8 that committee shall conduct an interim study of the  
9 effect of the dismantling of the Bell System telephone  
10 network on the state's telecommunications needs for  
11 equipment and services; and be it further

12 *Resolved*, That the select committee submit its findings  
13 and recommendations to the Senate Rules Committee on  
14 or before the date specified therefor by the Senate Rules  
15 Committee.

O

APPENDIX B

---





December 16, 1982

The Honorable Ralph C. Dills  
Chairman  
Senate Committee on Governmental Organization  
State Capitol  
Sacramento, CA 95814

Dear Senator Dills:

At your November 10 Interim Hearing on Senate Resolution 52 regarding Telephone Company deregulation, you asked for my comments on the Telecommunications Operations Plan prepared by the Department of General Services Communications Division.

It is evident the Communications Division and the Department have done a lot of work over the past year, considering the short range and long term planning impacts of divestment and deregulation of American Telephone & Telegraph Company.

With respect to setting goals and action plans, my comments are directed to: (1) Private Branch Exchange and Key Telephone Systems (Terminal Equipment); (2) Centrex Switching Equipment; and (3) Network Transmission.

(1) Terminal Equipment

A realistic goal is to review all terminal equipment rental arrangements over the next five years at the rate of 20% of the 9400 unit terminal population per year. Criteria need to be established for acceptable economic payback and service arrangements, comparing the present and projected utility company offering versus interconnect sources for telephone equipment and service.

In the cases presenting a clear advantage for purchase or lease from an interconnect company, the specification writing and procurement procedures would be routinized to keep the time and overhead costs for both the State and the interconnect vendors to a reasonable requirement. If the present initial program results in rapid work simplification, a five year goal can be met.

To give you an example, currently, the Water Resources Control Board on December 8, 1982, issued Invitation IFB-OP-82-05 for a small Key System that may involve a cost under \$50,000. The

The Honorable Ralph C. Dills  
December 16, 1982  
Page Two

contract administration process is very ungainly, involving over 80 pages of contract material from Procurement, and the following milestones: December 22 - preliminary bid; January 20, 1983 - final contract language due; January 27 - submit draft bid without prices; February 10 - submit final bid with prices; February 22 - notification of intent to award; February 23 - end of protest period; February 24 - contract award; March 3 - start installation; March 17 - cut off of change orders; April 11 - completion; May 31 - acceptance.

A typical phone system in the private arena would be bid, installed and completed within sixty days, or less. The aim of the State agencies should be to develop short form bid documents and pre-qualification procedures such that the effort and time can be reduced to close to normal commercial standards.

(2) Centrex Equipment

As Mr. Camacho testified, 60% of the State network consists of 120,000 phones for 200 agencies which are switched through 110 Centrex machines. With the major rate increases projected from Pacific Telephone and the feature limitations of Centrex equipment, it behooves the State to have an independent study of the switching equipment and network configuration which would optimize and economize the Centrex type facilities for the State.

Lease or purchase of a replacement system will yield major cost containment and savings payback on the investment. One method of financing is Certificates of Participation being used to finance the Sonoma County telephone system.

(3) Network Transmission

The question of gaining access to the most economical transmission facilities may be best served in the long term by choosing among the competitive offerings of ATT Long Lines, the specialized common carriers or resale carriers. I suggest an independent study of the comparative advantages of upgrading the present State microwave system with the outside carrier offerings. My personal judgment is that it would be preferable to put the emphasis on your switching facilities first to realize the savings and versatility of controlling your network. Cost and methods of transmission will decrease over time with the introduction of new technology such as cable, fibre optics and satellite transmission.

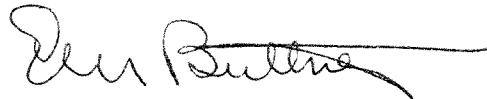
The Honorable Ralph C. Dills  
December 16, 1982  
Page Three

In summary:

- (1) Replacement of your individual key systems and PBXs can proceed without delay.
- (2) An objective study of the Centrex system offers major savings and opportunities to gain control over your network.
- (3) A study of the transmission facilities comparing costs of outside carriers and, where applicable, the comparative cost of investing in upgrading the State microwave network, is in order.

I will be happy to discuss the above comments with you or the appropriate department or division staff.

Sincerely,



E. M. Buttner  
Chairman and CEO

EMB:emg



## APPENDIX C

---





## DEPARTMENT OF GENERAL SERVICES



November 17, 1982

Honorable Ralph Dills  
Member of the Senate  
Chairman, Senate Committee on  
Governmental Organizations  
California State Legislature  
State Capitol, Room 5046  
Sacramento, California 95814

Dear Senator Dills:

The Department of General Services, Communications Division, is appreciative of this opportunity to respond to some of the testimony presented by a former employee of the Department of Parks and Recreation, and current employees of the Department of Transportation and the Department of Parks and Recreation.

In response to testimony by Mr. Henry L. Crutcher, former State Telecommunications Officer, Department of Parks and Recreation:

1. Use of the State Microwave System for carrying some of the long haul telephone circuits for State use was mentioned in our earlier presentation. As stated at that time, the main "backbone" routes which could carry the new service are presently 40 percent loaded. If you look at the entire microwave system, the loading will drop to around 30 percent.

The microwave system reliability was questioned by Mr. Crutcher. The facts are: The average path reliability has been measured to be 99.9 percent. The total end-to-end backbone reliability is 99.9 percent for nonredundant routes, however, use of alternate system routing which is built in to the system will provide selected circuits, such as Sacramento to Los Angeles, with a reliability in excess of 99.9 percent.

To give you an example of the State Microwave System's capability to handle telephone or data traffic, we have had in place for approximately a year several 9.6 Kilo bit data transmission circuits between the University of California Santa Barbara and Berkeley Campuses. The actual error-free uptime for these circuits, as measured by the University of California, is 99.98 percent. This grade of service is considerably better than that which Pacific Telephone will guarantee.

The Communications Division has been and is continuing to upgrade the capability and reliability of the State Microwave System. Some of the continuing microwave upgrading program includes adding hot standby to major backbones, completing the addition of battery backup to nearly all sites, improving the overall system quality and noise performance and providing frequency agile portable microwave equipment, now on order, to enable us to restore microwave sites that have been destroyed due to natural or man-caused disasters.

The allegation that the State Microwave System is too expensive is only true in a limited context that it is not being used to its design capability. By carrying some of the State's long haul telephone circuits, we can reduce the cost to the State for all circuits carried by the microwave system, telephone as well as existing public-safety type traffic.

2. Concerning the uncompleted Parks and Recreation (P&R) work orders, at this time we have exactly eight P&R work orders on hand over four months old. Of the 100 work orders which were allegedly backlogged, 85 of them had been completed. Field-issued paperwork on these 85 has not been closed out.

In response to the testimony by Mr. W. T. White, Chief Telecommunications Engineer, Department of Transportation, and Mr. Donald B. Banks, Associate Telecommunications Engineer, Department of Transportation:

1. The reference to excessive time taken to complete a major Department of Transportation (DOT) reconfiguration of dispatching capability was the result of several items, the details of which were covered in correspondence to W. T. White, dated June 7, 1982. In summary, over a period of about two years, DOT issued several jobs which resulted in a conceptual change in the way the DOT base stations were controlled from multiple locations. In order to economically handle the change, these jobs were consolidated over a period of time and a special audio and signaling combiner design was developed which would be of universal use in the DOT public-safety radio system. The new design eliminates the need for constant redesign of control circuits as DOT dispatching needs are changed. The initial design, subsequent design review and modification, ordering of parts, fabricating of the special circuit board assemblies all leading toward final installation in the fields, actually started in June of 1981. The last installation was completed this Fall.
2. The Communications Division maintains no overcharges to the Department of Transportation as implied by Mr. White. The unit cost concept, as adopted by the State Radio Users Committee in April, 1979, provides client agencies with a guaranteed fixed maintenance charge for any given fiscal year. It was agreed by the Committee that rates would be developed by reviewing the prior two-year's maintenance experience. Also, prior to the beginning of any given fiscal year, the proposed rates and schedule of units to be maintained are submitted to the client agency for review. Once adopted, the rates are fixed for that fiscal year. If actual effort in any given year is substantially different than the projected effort, this change will impact future unit costs. Factors that affect maintenance efforts are type of equipment, age, usage, and system complexity. In DOT's case, calculating the 1982-83 unit costs based on the 1980-81 and 1981-82 fiscal year's maintenance effort, a cost reduction of \$80,000 (nine percent) was reflected over the prior year unit costs.
3. Several references were made in previous testimony to allow the various State agencies to provide for their own radio and telephone services. This addresses the basic issue of centralized service or decentralized services.

All studies on the topic indicate centralized services eliminate the duplication of personnel, facilities, and equipment, resulting in lower overall cost while providing a higher level of service. Centralized services provide for better control while providing uniformity throughout State operations.

In response to testimony by Mr. Richard Goulden, Acting Telecommunications Officer, Department of Parks and Recreation:

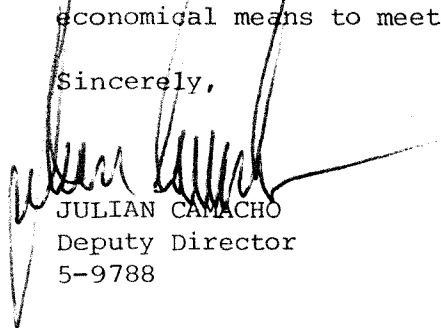
1. In regard to the installation of the two electronic sirens in vehicles assigned to the Anza-Borrego Desert State Park, one installation was done on a Monday and the other on a Friday of the same week. The reason for this was simple. Since travel time to and from the Park takes four hours, the siren installation was done on days when the technician had been called to repair mobile radios in the park. There was insufficient time on Monday to complete the repairs and make both siren installations. Other State agency maintenance work precluded the technician remaining at the park. When the next maintenance call took the technician to the desert on the following Friday, the second electric siren was installed.
2. The case of repairing a failed Parks and Recreation installed wire line when the Sacramento Office had not wanted to spend any more money on the line turns out to be a matter of our technician carrying out the request of a Park Ranger at Angel Island State Park. Our technician was called out to repair a radio. When he arrived by ferry to the Island, he found the outage was caused by a tree which fell across the control line leading to the radio. Before any work was done on the line, an attempt was made to contact Mr. Goulden, but he was unavailable at that time. Since the Ranger was insistent that the vital public-safety radio be placed back in operation, our technician made a temporary repair by splicing in some cable he prudently brought with him and restored the service. The total time for the repair was only five hours including the roundtrip ferry ride. While we did not have a letter prohibiting us from repairing the line at the time of the incident, we have substantially asked for and received such correspondence from Mr. Goulden.
3. The statement that we charged \$1,100 to repair a wire line actually owned by the telephone company is not factual. The facts are that two Communications Division technicians worked on a Saturday to restore operation to a lightning damaged radio located in a park facility near Hollister. Communications Division was requested by P&R to remove the lightning damaged equipment and replaced the base station, installed two separate remote control units, and checked out the control lines and the complete system for proper operation. In the process, a minor repair was made to the control line which was not marked as to ownership in order to reestablish needed communications. The complete installation involving two technicians required 22 hours of time, including five hours for travel. Since all work was accomplished on a Saturday, it was not practical to obtain information on who owned the control line. The repair of the line allowed the job to be completed Saturday so that vital communications could be restored to the

November 17, 1982

park for the weekend. The major cost to restore the radio service was removing the damaged equipment and installing replacement equipment, not the repair of a telephone company line as Mr. Goulden stated.

We do not agree with those witnesses who testified that a centralized service for State public-safety agencies does not work. Centralized services is cost effective and, with the fiscal constraints we are faced with, we continue to seek the most economical means to meet the requirements of the State agencies.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Julian Camacho', is written over the typed name and title. The signature is stylized with a long horizontal stroke extending to the right.

JULIAN CAMACHO  
Deputy Director  
5-9788